

Programs Department	Portfolio Management Policy	Original Effective Date: August 28, 2025 Revised: March 26, 2026
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NEW MEXICO
FINANCE AUTHORITY

PORTFOLIO MANAGEMENT POLICY

This Portfolio Management Policy was adopted on the 28th day of August 2025 by the Board of Directors of the New Mexico Finance Authority (“NMFA”), a public body politic and corporate, separate and apart from the State of New Mexico constituting a governmental instrumentality, created by the New Mexico Finance Authority Act, Section 6-21-1 et. seq., NMSA 1978.

I. PURPOSE/OBJECTIVE. To Provide an end-to-end roadmap and oversight structure for the approval, closing, modification and monitoring of Financial Transactions of the New Mexico Finance Authority (“NMFA”).

II. DEFINITIONS.

A. Board. The Board of Directors of the NMFA.

B. Board Committee. One of the Board’s Committees including the Audit Committee, Economic Development Committee, Executive Committee, Finance and Disclosure Committee, or Public Lending Committee.

C. CEO. The Chief Executive Officer of the NMFA.

D. CFO. The Chief Financial Officer of the NMFA.

E. Client. The recipient of the Financial Assistance from the NMFA.

F. Enterprise. Financial Transactions in the form of loans, that are complex, sophisticated, or that may involve multiple entities, investors, repayment sources or repayment sources that are subject to severe fluctuations. For the avoidance of doubt, Enterprise includes all loans to private enterprises, and complex loans to public entities including loans made to hospitals, tribal entities, universities, charter schools, and any loan backed by cigarette, fuel, cannabis, or other tax subject to severe fluctuation.

G. Financial Assistance. Funding provided in the form of a loan, grant, or purchase of a bond by the NMFA.

H. Financial Transaction. The agreement between the NMFA and Client documenting the terms of Financial Assistance.

I. Good Standing. Compliant with material Financial Transaction requirements, unless a requirement is waived by the CEO or Board of Directors, and does not have any outstanding Financial Transactions deemed Substandard as outlined in Section VIII (C) 2 (b).

J. Non-enterprise. Financial Transactions involving public entities with a direct source of repayment backed by general obligation bonds, gross receipts taxes, other excise taxes imposed pursuant to law, or net system revenue generated from providing utility services.

K. Surveillance Review. Periodic review of certain risk areas affecting the quality of a Financial Transaction.

L. Watchlist. A list of Financial Transactions that may suffer from a compliance, payment failure, credit weakness, or other risk that requires additional monitoring and mitigation. Financial Transactions on the Watchlist will be classified as either Watch or Impaired.

III. LOAN AND GRANT APPROVAL

Financial Assistance shall be approved by the Board in accord with this Section and Section V, Reapproval Criteria.

A. Consent Agenda. Non-Enterprise Financial Assistance of up to Two Million Dollars [\$2,000,000] without material weakness or relevant significant deficiency audit findings or operational issues that conform to applicable Board-approved program policy and recommended by the Public Lending Committee will appear on the Consent Agenda at the next regularly scheduled Board meeting. Items on the Consent Agenda will be considered with a single motion and be deemed read into the record by virtue of their appearance on the Consent Agenda as approved by the Board. Should a Board member wish to discuss a Consent Agenda item further, the Board member may make a motion to remove the item from the Consent Agenda, and upon approval by the Board the item will be placed on the regular agenda to be discussed and voted on separately.

B. Annual Cycle Consent Agenda. Water Trust Board and Colonias Infrastructure Board recommended applications that conform to applicable program rules and policy and have been recommended for approval by the Public Lending Committee shall appear on the Annual Cycle Consent Agenda at the next regularly scheduled Board meeting. Items on the Annual Cycle Consent Agenda will be considered with a single motion and be deemed read into the record by virtue of their appearance on the Annual Cycle Consent Agenda as approved by the Board. Should a Board member wish to discuss an Annual Cycle Consent Agenda item further, the Board member may make a motion to remove the item from the Annual Cycle Consent Agenda, and upon approval

by the Board the item will be placed on the regular agenda to be discussed and voted on separately.

C. Partner Recommended Consent Agenda. Upon recommendation of the CEO, the Board may consider applications received as part of a competitive application process that are recommended by a program partner as part of a Partner Recommended Consent Agenda. Applications appearing on a Partner Recommended Consent Agenda shall conform to applicable program rules and policy and be recommended for approval by the appropriate Board Committee. Items on the Partner Recommended Consent Agenda will be considered with a single motion and be deemed read into the record by virtue of their appearance on the Partner Recommended Consent Agenda as approved by the Board. Should a Board member wish to discuss Partner Recommended Consent Agenda item further, the Board member may make a motion to remove the item from the Partner Recommended Consent Agenda, and upon approval by the Board the item will be placed on the regular agenda to be discussed and voted on separately.

D. Emergency Conditions. Financial Assistance of up to One Million Dollars for applicants affected by emergency conditions may be approved by the CEO, subject to applicable rules and program policy. Emergency Conditions include disasters, health orders, and other emergencies declared by the Governor. A list of approved Financial Assistance shall be provided to the Board at the next regular meeting.

E. Board Approval. All other Financial Assistance shall be approved by the Board in accord with its governing policies and procedures.

IV. LOAN AND GRANT CLOSING

A. Notification Letter. Within ten (10) days of Financial Assistance approval or disapproval, the Programs Department will issue either a declination or approval notification to the applicant. For approval recipients the letter will outline the procedures and contact information for the closing process along with any contingencies or conditions precedent to closing the Financial Transaction, including the submission of initial and ongoing construction schedules, budgets and drawdown schedules as applicable

B. Closing Requirements.

1. **Collateral.** Collateral securing the Financial Assistance shall be perfected at closing. The type and value of the collateral will be commensurate with the Financial Transaction's risk and consistent with Board approval.

2. **Construction.** For Financial Assistance involving construction, the NMFA will require the submission of initial and ongoing construction schedules, budgets and drawdown schedules as requested by the NMFA.

3. **Contingencies.** Any contingency shall either be satisfied prior to closing or documented in the Financial Transaction and monitored for timely completion.

4. **Good Standing.** Unless a waiver is granted by the CEO, no Financial Transaction shall be closed so long as the Client is not in Good Standing.

C. **Post-Closing Instructions.** Within ten (10) days of closing the Financial Transaction, Client Services will issue a notification to the Client outlining the procedures and contact information for on-going Financial Assistance servicing, reporting and monitoring, including the submission of initial and ongoing construction schedules, budgets and drawdown schedules as applicable.

D. **Reporting.** Quarterly, a report will be provided to the appropriate Board committee of the number, nature and timing of Financial Transaction closings.

V. REVISED APPROVAL CRITERIA

After approval, Financial Transactions may require or seek amendment or need correction. Depending on the type of amendment or correction, either the CEO or the Board may approve such changes.

A. **CEO Approval.** The following circumstances require only the approval of the CEO or designee, so long as the Client is in Good Standing. The Chief of Programs shall be responsible for requesting CEO approval. The Chief of Programs shall notify the General Counsel of such modification which shall be appropriately documented after CEO approval.

1. **Interest Rate.** Modification of the interest rate of less than one percent (1%), so long as the financial transaction meets any applicable coverage and policy requirements.

2. **Project Scope.** Modification of the components of a project phase.

3. **Tax Status.** Modification of the tax status of a loan.

4. **Financial Assistance Amounts.**

a. Reduction of the Financial Assistance amount.

b. Increases up to ten percent (10%) of the Financial Assistance, provided that any increase does not breach the coverage requirements of any policy or contingency applicable to the Financial Transaction.

5. **Financial Assistance for Water Trust Board and Colonias Infrastructure Board.** Increases up to twenty five percent (25%) of the Financial Assistance from funds dedicated by the Water Trust or Colonias Infrastructure Boards for cost overruns.

6. **Payment Deferrals.** Deferment of payments for no longer than ninety (90) days for payments applied monthly and one hundred eighty (180) days for payments applied semi-annually. Financial Transactions receiving payment deferrals will be placed on the Watchlist.

7. **Term.** Extension of the loan term of no more than nine (9) months, if not otherwise prohibited by law or will negatively affect the tax status of the transaction.

8. **Spend Down/Construction Timing.** Extension of the spend down period/construction period, as allowed by law.

9. **Intercept Status.** Modification of the type of intercept from active to contingent.

10. **Pledged Assets.** Modification of the pledge, not including any guarantee, when:

a. the collateral is of the same type and value;

b. the pledge is required to conform to the requirements of any applicable federal, state, or local law;

c. the new pledge is determined to be beneficial to the NMFA;
and

d. provided such modification does not breach the coverage expectations of any other policy or contingency applicable to the transaction.

11. **Workouts.** Modifications to avoid or manage a default. Such Financial Transactions shall be made part of the Watchlist, if not already placed on the list, as outlined in Section VIII(C).

12. **Scrivener's Errors.** Other modifications to correct errors or inconsistencies provided that such corrections are not material modifications of the loan amount, collateral, term or other structuring of the Financial Transaction.

13. **Deadlines and Readiness-to-Proceed.** Changes to readiness-to-proceed submission dates, including extensions and waivers of non-material readiness to proceed items.

B. Board Approval. The following circumstances require the approval of the Board upon recommendation of the appropriate Board Committee.

1. **Reserve.** Removing the reserve requirement or changing it to a springing reserve.

2. **Lien Position.** Modifying the lien position of the NMFA with respect to the pledged revenues below its initially approved priority.
3. **Payment.** Removing an intercept or ACH requirement.
4. **Collateral.** Removing or reducing the amount or type of collateral, provided that collateral may be reduced as loan balances are reduced.
5. **Payment Deferrals** of more than ninety (90) days for payments applied monthly and more than one hundred eighty (180) days for payments applied semi-annually. Financial Transactions receiving payment deferrals will be placed on the Watchlist.
6. **Term.** Extension of the term of any loan for more than nine (9) months.
7. **Other.** Any other material modifications to the Financial Transaction.

VI. REQUISITIONS

A. Requirements.

1. **Eligibility.** Only those expenses that are eligible and contemplated as part of the scope of the project as planned may be reimbursed.
2. **Drawdown Schedule.** For Financial Assistance that finance construction projects, requisitions must be consistent with the project's construction and drawdown schedule.
3. **Collateral.** For loans that finance the acquisition of assets that are pledged as collateral for repayment of the loan, staff will ensure that such requisitions reference the particular collateral and the progress towards complete acquisition or construction of such collateral.
4. **Authorization.** Only requisitions that are authorized by a Client's designated officer may be processed for payment. Such requisitions must include valid and proper wiring instructions and should be encrypted.

B. Processing. Requisitions will typically be processed within fifteen (15) days, upon receipt of complete and accurate materials. Notwithstanding the above, the NMFA will not process requisitions for Clients that are not in Good Standing, unless a waiver is approved by the CEO upon recommendation of the Chief of Programs

C. Reporting. Quarterly, a report will be provided to the appropriate Board committee of the number, nature and timing of requisition processing.

VII. PROJECT MONITORING

A. Compliance. Staff will monitor compliance submissions and project-related reports as required by the Financial Transaction and applicable program policy and guidelines. Should a Client fail to supply the required submissions for more than forty-five (45) days after they are due to be submitted, the relevant Program Administration Managing Director will notify the General Counsel. The Managing Director of Credit will place the transaction on the Watchlist

B. Project Progress. The Project Oversight Department shall monitor the construction of projects funded from the Primary Care Capital Fund, Behavioral Health Capital Fund, Child Care Facility Revolving Fund, Opportunity Enterprise Revolving Fund, Housing Development Revolving Fund, and the New Markets Tax Credit program, and shall monitor other Enterprise projects identified by the Managing Director of Credit. The Project Oversight Department shall compare project progress against each draw request, and shall, at least bi-annually, monitor the following for each Financial Transaction in its project completion phase. Should the Managing Director of Project Oversight identify any material deficiencies in construction or spend-down progress, the Managing Director of Credit and the General Counsel will be notified and consider whether any further action is warranted including placing the transaction on the Watchlist.

1. construction progress against the construction plan,
2. project spend down against the project budget, and
3. project spend down against any applicable IRS timing requirements as applicable.

C. Site Visit. Site visits should confirm the status of the project, construction activity, and identify any issues that may prevent timely construction completion or impair NMFA collateral or repayment. Concerns regarding a project that may impact the ability to timely complete the project or impact the potential for repayment will be immediately reported to the Managing Director of Credit for consideration to be placed on the Watchlist. Financial Transactions, including those that suffer from the inconsistencies below, may be subject to a site visit.

1. **Impaired Mobilization.** Delayed construction or slow progress towards project completion.
2. **Impaired Requisition Submittals.** Delayed initial requisitions or slow requisition pacing against construction, drawdown schedules, IRS or NMFA requirements.
3. **Impaired Reports.** Borrower-submitted project reports that do not match expected construction schedule or use of funds.

D. Reporting. Bi-annually, a report will be provided to the appropriate Board Committee of the following:

1. **Project Deficiencies.** The number and nature of project progress deficiencies.
2. **Project Spend Down.** A summary of project spend-down by program.
3. **Project Progress.** A summary of project progress against the initial or amended schedule by program.

VIII. CREDIT MONITORING

Monitoring includes both validation and review of adherence to finance related loan covenants, as well as proactive management of risks identified at initial underwriting or occurring throughout the lifecycle of the loan.

A. Covenant and Coverage Ratio.

1. **Routine.** The debt service coverage ratio will be confirmed as outlined below. Failure of a Financial Transaction to maintain coverage will result in the loan being placed on the Watchlist.

a. **Non-Enterprise.** The debt service coverage ratio for these transactions will be confirmed upon the request for additional debt.

b. **Enterprise.** The debt service coverage ratio shall be confirmed at least annually.

2. **Additional Debt.** Borrowers are required to notify the NMFA upon considering taking on additional, material debt. Upon notification, coverage ratios will be recalculated. To determine the coverage ratio, receipt of financial statements, audited when possible, will be needed.

B. Risk/Credit/Payment.

1. **Grading.** Each Financial Transaction in the form of a loan shall be graded prior to being approved in accord with the grading categories outlined in Exhibit A. These initial loan grades shall assist in identifying particular risk areas of any Financial Transaction.

2. Surveillance Review

a. **Non-Enterprise.** Requires review only when placed on the Watchlist.

b. **Enterprise.** Requires, at a minimum, an annual review that depending on the particular credit may include items outlined in Exhibit B. Should the NMFA be aware of additional risks, the loan should be placed on the Watchlist.

c. **Payments.** The Finance Department will monitor the timeliness of all loan payments monthly. If a payment is late, Client Services Department will contact the borrower to ensure the late payment is remitted as soon as possible, as outlined below.

- i. Fifteen (15) days past due will warrant a logged phone call;
- ii. Thirty (30) days past due will warrant a written notification;
- iii. Payments over sixty (60) days past due will be reported to the General Counsel, receive a written notice of breach, and be placed on Watchlist.

C. Watchlist. Financial Transactions on the Watchlist that have some form of noncompliance or other characteristic that have a negative effect on the quality of the credit, requiring the attention of the NMFA. Financial Transactions will remain on the Watchlist until the Managing Director of Credit determines that technical compliance is cured or if conditions improve. Depending on the severity of the impairment, Financial Transactions on the Watchlist will be classified as either Watch or Impaired, as outlined below.

1. **Watch Classification.** These are Financial Transactions which show some weaknesses in either the borrower's ability to provide compliance documentation, concerns about construction progress or degradation in the Client's financial condition or creditworthiness, requiring more than normal attention but not allocation of provisions. Typical examples of conditions that would render a Watchlist placement include:

- a. Coverage breach.
- b. Required compliance submissions, other than audits required by the State Audit Act, and project related reports, such as financials or other loan materials, are past due by forty-five (45) days.
- c. Audits required by the State Audit Act that are past due by more than ninety (90) days.
- d. Payments over (60) days past due and there are no other known issues.
- e. Construction concerns after a site visit.

f. Concerns following a Surveillance Review.

2. Impaired Classification. Impaired Financial Transactions have suffered specific weaknesses that must be monitored or mitigated. Impaired Financial Transactions are categorized as one of the following.

a. **Special Mention.** Special Mention is an Impaired Financial Transaction identified through the presence of potential or well-defined weaknesses that necessitate additional monitoring. Such weaknesses, if left uncorrected, may impede repayment or adversely affect performance. Typical examples of conditions that would render a Special Mention classification include circumstances that may indicate a material deficiency in the quality of the credit, collateral or project, such as:

i. Required loan covenant documents, such as financials or other Financial Transaction compliance materials, other than audits required by the State Audit Act, are past due by ninety (90) days.

ii. Audits required by the State Audit Act that are past due by more than one hundred twenty (180) days.

iii. Negative economic trends or other financial stressors that could affect the borrower.

iv. Changes in the financial condition of the Financial Transaction, including but not limited to revenue, debt, forecasts and other economic factors.

v. Payments over (90) days past due and there are no other known issues.

vi. Construction delays, changes in concept or project plan, slow leasing, rental concessions, deteriorating market conditions, impending expiration of a major lease, or other adverse events that are likely to impact the completion of the project and the ability of the Client to meet debt service.

vii. Any other weakness identified by the NMFA.

b. **Substandard.** Substandard is an Impaired Financial Transaction that is inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any, that constitutes a well-defined weakness or weaknesses jeopardizing the liquidation of the debt. Substandard loans are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected. Typical examples of conditions that would render a Financial Transaction as Substandard, include, but are not limited to:

i. Payment default over one hundred twenty (120) days;

- ii. Inability of a borrower to make principal payments after the initial interest-only period;
- iii. Slower than projected leasing or sales activity that threatens to result in protracted repayment delays or default;
- iv. Lower than projected lease rates or sales prices that jeopardize repayment capacity;
- v. Construction or tax liens;
- vi. Inability to obtain necessary zoning or permits or other serious construction delays that impair repayment.

c. **Doubtful.** Doubtful is an Impaired Financial Transaction that is typically already in default wherein the weaknesses make collection or liquidation in full, on the basis of current facts, conditions, and values, highly questionable or improbable. The Chief of Programs will consult with the General Counsel prior to recommending that a Financial Transaction be deemed Doubtful. Such recommendation will be documented on the Watchlist. Thereafter, the Doubtful loan will be administered according to Section VIII (E)(2).

d. **Loss.** Loss is an Impaired Financial Transaction wherein the cost of continued collection efforts is not justifiable in light of the amount to be reasonably recovered. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the asset. The Chief of Programs will consult with the General Counsel prior to recommending that a Financial Transaction be deemed Loss. Such recommendation will be documented on the Watchlist. Thereafter, the Loss loan will be administered according to Section VIII (E)(2).

D. Administration of Watchlist Loans by the Credit Department. Financial Transactions remain on the Watchlist until the weakness is adequately mitigated as determined by the Managing Director of Credit with approval of the Chief of Programs. Watchlist loans require quarterly or more frequent monitoring and may necessitate a site or other action as described below.

1. **Watch.** These loans may be subject to a Surveillance Review, as outlined in Section VIII(B)(2), targeting the weakness, Site Visit, or other outreach as determined by the Chief of Programs.

2. **Impaired.** These Financial Transactions will be subject to an Action Plan developed by the Managing Director of Credit and approved by the Chief of Programs.

a. **Action Plan.** These plans will be completed and updated quarterly or more often as circumstances warrant. These reviews will outline the weaknesses, mitigating factors, expected sources of repayment and credit analysis, collateral value and an impairment analysis, accrual status, charge-offs taken or recommended, the anticipated method, timeframe and status of action proposed to eliminate the weaknesses.

b. **Impairment Analysis.** An impairment analysis will be conducted as part of the Action Plan identifying any portion of the outstanding amount that is not secured or inadequately secured, along with the current Collateral Valuation and Service Impact concerns as outlined below. Any amounts considered impaired will be promptly reported to the CFO for inclusion in the Allowance for Loan and Lease Loss analysis as outlined in Section (E) below.

c. **Collateral Valuation.** Will include:

i. Verification of the location and condition of the collateral.

ii. Verification of adequate insurance for the collateral.

iii. Verification of lien position.

iv. Adjustments to the valuation due to condition and marketability, which may require an updated appraisal.

d. **Service Impact.** As a mission lender, the Impairment Analysis should include an evaluation of any NMFA collection efforts or workouts against the impact the Client makes in providing critical care needs to the community, if applicable. Additionally, should the loan be a product of a partnership with a state agency, that agency should be consulted for additional information on service disruption and possible solutions.

3. **Reporting.** Financial Transactions on the Watchlist will be reported to the appropriate internal committee monthly, with a report of Impaired Loans made to the appropriate Board Committee provided quarterly.

E. Legal and Financial Implications of Impaired Financial Transactions

1. **Non-Accrual.** If full collection of both interest and principal is in doubt, the Financial Transaction should be placed on nonaccrual status.

a. **Placed on non-Accrual.** The NMFA will not accrue interest, amortize deferred net loan fees or costs, or accrete discount on any Financial Transaction if:

i. the Financial Transaction is maintained on a cash basis because of deterioration in the financial condition of the borrower;

ii. payment in full of principal or interest is not expected;

or

iii. principal or interest has been in default for a period of ninety (90) days or more unless the Financial Transaction is both well secured and in the process of collection.

b. **Return to Accrual.** If the guarantor keeps payments current and shows a documented willingness and capacity to do so in the future, and collateral values protect against loss, the Financial Transaction should be left on accrual. As a general rule, a nonaccrual loan may be returned to accrual status when:

i. none of its principal and interest is due and unpaid and repayment of the remaining contractual principal and interest is expected; or

ii. it otherwise becomes well secured and is in the process of collection. Interest will not be capitalized.

c. **Notification and Approval.** The CFO will be promptly notified of a loan potentially requiring treatment as a nonaccrual loan.

2. **Financial Transactions classified as Doubtful or Loss.** Financial Transactions that are classified as Doubtful or Loss by the Chief of Programs, after consultation with the General Counsel taking into account the cost and timing of collection efforts and available repayment resources will be reported to the CFO along with an analysis of the amount that may be collectable. Upon such notification the CFO shall appropriately address the Loan Loss Reserve and determine the appropriate treatment of the asset as outlined below.

a. **Write-Down.** A Financial Transaction may be written down to less than 100% but more than 0% of the outstanding amount upon concurrence by the CFO who will increase the allowance for bad debt by an amount equal to the write down. Write-downs will be taken as soon as practicable, but no later than the end of the month in which the write-down is recognized.

b. **Charge-offs.** A Financial Transaction may be completely charged-off to a zero value upon concurrence by the Chief of Financial Officer, with approval by the CEO and reported to the appropriate Board committee. Charge-offs will be taken as soon as practicable, but no later than the end of the month in which the charge-off is recognized.

c. **Foreclosure/Legal Enforcement.** If it is determined it is in the best interests of NMFA to take action to foreclose on a defaulted loan and pursue

recovery through all available means, the CEO may refer the Financial Transaction to the General Counsel in accord with the Board's Litigation and Representation Policy. The NMFA may take any of the actions outlined below.

- i. Initiation of legal action for breach of agreement;
- ii. Foreclose on any and all secured property;
- iii. Enforce guarantees;
- iv. Report to credit rating agencies;
- v. Upon receipt of a judgment, seize collateral;
- vi. Restructure of the Financial Transaction;
- vii. Entering into settlement agreement; and
- viii. Any and all other action necessary to recover outstanding monies due, including a prohibition against providing future Financial Assistance.

3. **Effect of Restructure on Financials.** Should a Financial Transaction be restructured or a settlement agreement entered into as provided by Section V(A)(11) or the previous section, the CFO shall evaluate whether the Financial Transaction should be reported as a troubled debt restructuring ("TDR"). Under GAAP, a modification of a loan's terms constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. This may include a reduction of the stated interest rate for the remaining original life of the debt. The concession could either stem from an agreement between the creditor and the debtor or be imposed by law or a court. If a modification meets the definition of a TDR in accordance with Accounting Standards Codification (ASC) 310-40, the TDR loan must be measured for impairment under ASC 310-10-35. The CFO will be consulted promptly if a loan is restructured and may potentially constitute a TDR.

4. **Allowance for Loan and Lease Loss.** Bi-annually, the NMFA's internal Debt Management Committee will analyze the adequacy of its Allowance for Bad Debt based upon the reporting of Impaired Loans. At a minimum, the Allowance for Bad Debt will be set at one percent (1%) of the outstanding principal of the loans for portfolios containing primarily Non-Enterprise loans and at five percent (5%) for portfolios with primarily Enterprise loans. At the discretion of management, the allowance will increase up to one hundred percent (100%) of the outstanding principal for the Impaired Loans. The Allowance for Bad Debt will be set at one hundred percent (100%) for any loans identified as Doubtful (or Loss).

5. **Reporting.** Quarterly, a report will be provided to the appropriate Board committee of the number and nature of any financial adjustments made due to the classification of a Financial Transaction, restructure, workout or legal enforcement.

F. PROGRAMMATIC MONITORING

1. **Program Compliance.** The Programs Department is responsible for ensuring that each program meets its obligations for programmatic monitoring, compliance and reporting. Such obligations include:

- a. Federal and State law mandatory requirements.
- b. Legislative mandated annual reports.
- c. Policy mandated monitoring and reporting.
- d. Programmatic anomalies.

2. **Reporting.** In addition to completing the required reports, the Programs Department will present quarterly to the internal Public and Private Credit Committees on the status of the above, so long as such data is readily available. The status will be reported no less than annually to the appropriate Board Committee.

G. PROGRAMMATIC IMPACTS

1. **Financial Transactions.** Bi-annually, the number, nature and dollar amount of closed and outstanding Financial Transactions will be provided to the Board.

2. **Outcomes.** Annually, the impact of NMFA financial assistance made through NMFA programs will be reported to the Board, so long as such data is readily available. As appropriate, the report may address:

- a. Number and nature of construction jobs created.
- b. Number and nature of other jobs created or retained.
- c. Overall programmatic Economic Impact.
- d. Health and Safety Impact.
- e. Financial Savings.
- f. Programmatic Impact measured against NMFA Strategic Goals.
- g. Other key performance measures as directed by the Board.

EXHIBIT A LOAN RISK RATINGS

1 Virtually Risk Free -1

This rating designation denotes the highest level of credit quality for investment grade borrowers. Excellent protection is afforded by the strength of the local government's capacity to generate revenue with strong local economic conditions, established cash flows, highly reliable liquidity support, favorable structural or legal considerations, or demonstrated broad-based access to the market for refinancing without loss.

2 Virtually Risk Free -2

This rating designation denotes a very high level of credit quality for investment grade borrowers. Superior protection is afforded by the strength of the local government's capacity to generate revenue with strong local economic conditions, established cash flows, highly reliable liquidity support, favorable structural or legal considerations, or demonstrated broad-based access to the market for refinancing without loss.

3 Virtually Risk Free -3

This rating designation denotes a high level of credit quality for investment grade borrowers. Substantial protection is afforded by the strength of the local government's capacity to generate revenue with above average local economic conditions, established cash flows, reliable liquidity support, favorable structural or legal considerations, or demonstrated broad-based access to the market for refinancing without loss.

4 Virtually Risk Free -4

This rating designation denotes a high level of credit quality for investment grade borrowers. Albeit not as much as the top three rating categories, an ample margin of protection is afforded by the strength of the local government's capacity to generate revenue with above average local economic conditions, established cash flows, reliable liquidity support, favorable structural or legal considerations, or the potential for broad-based access to the market for refinancing without loss.

5 Virtually Risk Free -5

This rating designation denotes a high level of credit quality for investment grade borrowers, but some speculative characteristics may exist. Still, the local government's capacity to generate revenue is strong with above average local economic conditions, established cash flows, reliable liquidity support, favorable structural or legal considerations, or the potential for access to the market for refinancing without loss.

6 Exceptional

Exceptional credits possess an exceptionally low risk of default and loss. These loans are supported by ultra-high net worth, highly liquid individual borrowers or guarantors and larger corporate borrowers or multi-market project owners or businesses with extensive, broadly diverse production operations (with sufficient financial resources to possibly qualify for an investment grade rating from S & P or Moody's). Exceptional borrowers are very well established with exceptional financial strength and stability, including very strong cash flow generation ability and significant levels of liquid assets combined with low levels of leverage. Exceptional C & I borrowers typically possess top notch management teams (and excellent bench strength) and unquestionable staying power supported by several sustainable competitive advantages and the ability to effectively anticipate and respond to changes in customer preferences and competitors' strategies. Likelihood of default prior to full repayment is very remote and non-cash secured loans would likely rank in the top 2-6% of pass rated loans held by the lender during the midpoint of the business cycle.

7 Superior

Superior credits possess a low risk of default and loss. These loans conform in all respects with lender policy and are supported by well-established borrowers (i.e. strong middle market borrowers, AG and MOG borrowers with well-developed operations that tend to be extensive and/or diverse and CRE projects or properties with a superior performance profile) with sufficient financial resources to possibly qualify for an investment grade rating from S & P or Moody's. Superior borrowers possess liquid financial statements supported by superior financial strength and stability, including superior cash flow generation ability and significant levels of liquid assets or net working capital combined with low to moderate levels of leverage. Such borrowers typically possess broadly excellent management and / production teams and staying power supported by multiple sustainable competitive advantages and the ability to proactively address changes in customer preferences, market conditions and competitors' strategies. Likelihood of default prior to full repayment is very low.

8 Excellent

Excellent credits possess excellent overall credit quality supported by excellent, diverse and multiple sources of repayment including strong (full cycle) cash flow, persistently excellent liquidity or net working capital positions and other assets comprising a strong net worth position that can be converted into liquid assets within the next twelve months. These loans conform in all material respects with lender policy and are supported by well-established borrowers with consistently good to excellent performance. Companies typically possess strong management teams (especially within senior-most roles) and staying power supported by key sustainable competitive advantages and the ability to promptly address changes in customer preferences and competitors' strategies as they arise. Likelihood of default prior to full repayment is low.

9 Outstanding

Outstanding credits possessing strong overall credit quality supported by outstanding, diverse sources of repayment including strong (full cycle) cash flow, excellent liquidity or net working capital positions and other assets comprising a strong net worth position. These loans conform in all material respects with lender policy and are supported by well-established borrowers with consistently strong performance. Companies typically possess highly experienced management teams (especially within senior-most roles) and staying power supported by key sustainable competitive advantages and the ability to promptly address changes in customer preferences and competitors' strategies as they arise. Likelihood of default prior to full repayment is moderately low.

10 Strong

Strong (above average) credits are desirable because of their above average credit quality, and are supported by comfortable (full cycle) cash flow coverage, meaningful (currently existing) financial liquidity or net working capital and moderate financial leverage maintained by financially sound borrowers with well-established operations generating consistently good performance levels. These loans conform in all material respects with lender policy and are supported by established borrowers with above average performance histories and outlooks. Such companies typically possess broadly capable management teams and favorable competitive positions supported by at least one key sustainable competitive advantage and the ability to effectively respond to changes in customer preferences and competitor's strategies as they arise to comfortably weather a temporary weakening of business prospects. Likelihood of default prior to full repayment is relatively low.

11 Very Good

Very good loans are desirable because of their slightly better than average risk; while having a minor deficiency or vulnerability to changing economic conditions, but still fully collectible. These loans conform in all material respects with lender policy and are supported by established borrowers with good performance histories and outlooks. Such companies typically possess very adept management teams and the ability to effectively respond to changes in customer preferences and competitor's strategies to weather a moderate weakening of business prospects. Likelihood of default prior to repayment is minimal.

12 Satisfactory

Satisfactory loans are more desirable than more speculative loans due to their average risk; while having some deficiency or vulnerability to changing economic conditions, but still fully collectible. Projects/borrowers clearly demonstrate better than breakeven debt service coverage on a current basis. May exhibit some weaknesses, but with offsetting features of other support readily available.

13 Fair

Fair credits possess a minor weakness that cause them to possess slightly lower than average credit quality even though they also possess attributes (or more strengths that can be built on) that make them preferable to minimally acceptable loans. They possess at least two of the following three attributes: (1) currently comfortable cash flow coverage, (2) meaningful (existing) liquidity or net working capital positions or (3) acceptable financial leverage. These loans may include a justified exception to lender policy and are supported by borrowers with financial positions that are currently good but may be susceptible to potential weakening due to the impact of revenue concentration issues, economic slowdowns or changes in the competitive landscape. Such companies possess acceptable competitive positions and management teams capable of responding to changes in the business conditions without undue delay. Likelihood of default prior to full repayment is somewhat higher than average.

14 Low Pass - Max Risk

Low Pass credits generally meet the minimum requirements for an acceptable loan in a broad sense but their overall risk profile causes their credit quality to fall within the bottom quartile of all newly approved loans. This may be due to the existence of more than one minor policy exception, the lack of existence of a compelling strength amongst its cashflow coverage, liquidity or net working capital and leverage profiles, or susceptibility to unacceptable quality weakening in its collective financial resources during periods of prolonged or pronounced economic weakness. Captures the credit risk profile of commercial borrowers that possess acceptable current competitive positions and management teams generally capable of responding to changes in business conditions without undue delay. Likelihood of default prior to full repayment is meaningfully higher than average but can be offset by proper risk-based pricing. Minimally acceptable loans should not be made during periods of time when prolonged economic uncertainty is expected.

15 Pass / Watch

A "Watch" credit is an acceptable loan for which an additional policy exception may have arisen subsequent to its booking or has been previously extended to a borrower and now shows signs of weakness in the overall base of financial resources available to repay the loan (i.e. - borderline cash flow coverage combined with relatively low levels of liquidity, limited or slightly negative net working capital and / or elevated financial leverage. However, demonstrated mitigating factors exist that contribute to the reduction of the risk of delinquency or loss. Identified weaknesses are expected to be reduced or eliminated within 3 - 6 months, as opposed to progressing to a more pronounced level. Watch assets are pass-rated credits that should be closely monitored, and if possible re-priced to reflect their elevated level of risk. They do not expose the lender to sufficient longer term risk to justify a criticized (non-pass) asset rating.

16 Special Mention

A "Special Mention" loan has identified potential weaknesses that are of sufficient materiality to require management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the lender's credit position at some future date. Special Mention assets contain greater than acceptable risk to warranted increases in credit exposure and are thus considered non-pass rated credits. They may contain weaknesses (that have arisen due to deteriorating economic conditions since origination) and / or underwriting exceptions that are not offset by mitigating factors; however, these weaknesses, while sufficient to constitute significantly elevated credit risk since origination, are not sufficient to support the conclusion that the liquidation of the debt is in jeopardy.

17 Substandard - Lower Risk (Accruing)

A Substandard Accruing loan is inadequately protected by the current sound net worth and paying capacity of the obligor or the collateral pledged, if any. Loans classified as Substandard Accruing possess well-defined weaknesses that are expected to jeopardize their liquidation and have progressed to a point where consistently late payments on the loan have become more than 90 or more days past due. These loans are characterized by the distinct possibility that the lender may sustain a moderate level of loss if such weaknesses are not corrected. Examples of well-defined weaknesses include high balance leverage, marginally positive or negative GAAP earnings, low and declining liquidity, inadequate loan structures, inadequate repayment sources or ability and the existence of persistent competitive disadvantages.

18 Substandard - Higher Risk (Non-Accrual)

A Substandard Non-Accrual loan is inadequately protected by the current sound net worth and paying capacity of the obligor or the collateral pledged, if any. Loans classified as Substandard Non-Accrual possess well-defined weaknesses that are expected to jeopardize their liquidation and have progressed to a point where consistently late payments on the loan have become more than 90 or more days past due. These loans are characterized by the distinct possibility that the lender may sustain a material level of loss if such weaknesses are not corrected. Examples of well-defined weaknesses include high balance leverage, marginally positive or negative GAAP earnings, low and declining liquidity, inadequate loan structures, inadequate repayment sources or ability and the existence of persistent competitive disadvantages.

19 Doubtful

Loan classified as Doubtful possess all of the weaknesses inherent in loans classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable or improbable based on currently existing facts, conditions and values. Loans rated as doubtful are not rated as loss because certain events may occur that could salvage the debt. These events include injections of capital, additions of pledged collateral or possible mezzanine debt refinancing options. However, without the occurrence of such events, losses would likely be substantial. No definite repayment schedule exists for these loans. The Doubtful grade is a temporary grade, and once the loss amount is determined, the remaining balance of the loan should be written off.

20 Loss

Defaulted loans with limited recovery prospects. No loan that has not yet defaulted should be classified at this grade level.

EXHIBIT B
SURVEILLANCE REVIEW - Potential Risk Areas for Review

Typical Risk Areas – Items to Review. Below are key risk areas that should be included in the reviews as required by the frequency, depending on the type of credit.

I. Management. Management team expertise and performance including executive management, operational management, financial management and marketing.

II. Operations. The ability and efficiency of the borrower to deliver products or services including staffing, logistics, planning, and execution. Also relevant to operations are major customers and/or suppliers that pose a risk to business continuity, including supply chain and market conditions.

III. Repayment. The ability to timely and adequately repay the loan covering spreads that depict the operating performance of the borrower or the strength of the underlying pledge which may include, as applicable:

- A. Trends in gross revenues, gross margin, expense and net income.
- B. Tax strength
- C. Adequacy of Rates
- D. Adequacy of Reimbursement
- E. Occupancy Rates
- F. Customer base, suppliers.
- G. Obstacles to continuity or growth, such as labor shortages, supply chain issues, competition, and changes in market conditions.

V. Financial Position. The overall financial strength of the borrower, inclusive, depending on the type of credit:

- A. Working capital, Receivable days, payable days
- B. Access to capital should it be needed and likely sources
- C. Guarantors. Financial profile (net worth, liquidity, debt levels, cashflow, diversity of cash flow sources, contingent debts, likelihood that those contingent debts could become direct debt and guarantors plans for additional projects, debt and increased risk exposure that could impact their financial profile).

VI. Collateral. The quality of the collateral, its value, marketability and ability to provide pay off if it needs to be liquidated. Due to the variability of the liquidation value Collateral, for all loans the following items must be periodically assessed or validated condition, valuation, security and insurance.