**94-178 KIM WALLACE ADAPTIVE EQUIPMENT LOAN PROGRAM FUND BOARD**

**Chapter 503: KIM WALLACE ADAPTIVE EQUIPMENT LOAN PROGRAM UNDERWRITING GUIDELINES**

**SUMMARY:** This rule publishes the loan underwriting guidelines, including interest rates, that have been proposed by the Financial Services Provider and reviewed and approved by the Kim Wallace Adaptive Equipment Loan Program Fund Board.

# UNDERWRITING GUIDELINES FOR LOANS TO INDIVIDUALS WITH DISABILITIES

 **Section 1.** **PURPOSE**

 The founding intent and essential purpose of the Kim Wallace Adaptive Equipment Loan Program (“AELP”) is to provide financing for people with disabilities within the State of Maine for the purchase of adaptive equipment or assistive technology that will help them live more independently. AELP is committed to working with people with disabilities who may not have access to commercial financing resources, such as banks or credit unions. At the outset, AELP directs potential loan applicants to available public and private funding sources that may provide grant monies or other resources that would obviate or reduce the need for financing. AELP also provides financial education before and throughout the application and loan process. The board or any entity with which the board is contracted to provide financial support services may award loans based on the following program guidelines.

 **Section 2.** **PROCEDURES AND STANDARDS**

 Loan applications shall be processed according to the procedures and standards set forth in the Kim Wallace Adaptive Equipment Loan Program, Rule 94-178 Chapter 501, (*The Program Rule*). Where applicable, the definitions of the terms contained in Section 1 of the program Rule apply to the terms as they are used in these underwriting guidelines. To the extent consistent with the Act and the Program Rule, the following underwriting guidelines shall supplement the Program Rule.

 **Section 3.** **LOAN INTEREST RATE**

 AELP’s current interest rate of 3.75% is available to all applicants who qualify for loan pursuant to the Act, the Program Rule, and these underwriting guidelines.

##  Section 4. UNDERWRITING GUIDELINES FOR LOANS TO INDIVIDUALS WITH DISABILITIES

* 1. **Loan Periods**. The term of each loan shall be based on the applicant’s circumstances and the useful life of the collateral. Typical Repayment periods for various types of loan are shown below:
		1. Computers and adaptive peripherals – 3 years
		2. Stand-alone reading and magnification devices – 5 years
		3. Hearing Aids – 4 years
		4. Wheelchairs or scooters – 5 years
		5. Building modifications – 10 years
		6. New vehicles that need adaptations (including when there is another funding source for the adaptations) – 7 years.
		7. Used vehicles that need adaptations (including when there is another funding source for the adaptations) – 6 years
		8. Lifts and elevators – 10-20 years
		9. Furniture, beds and mattresses – 7-10 years
		10. Other - If AELP has not established a loan period for specific type of adaptive equipment or assistive technology knowledgeable individuals will be consulted to determine and assess the expected useful life.
	2. **Collateral.** Collateral will be required for all loans. AELP will take a security interest in the adaptive equipment or assistive technology purchased. For real estate loans of $15,000 and greater, equipment loans of $10,000 and greater, and all vehicle loans, the security instrument will be filed or recorded as necessary to perfect the security interest. For all real estate loans that will require a mortgage as security, AELP will first use the Tax Assessed Value. In some instances, an appraisal will be required. The accepted loan to value ratio for mortgages will be 90%.

## Examples of Adaptive Equipment and Assistive Technology.

AELP will facilitate loans to purchase a broad array of adaptive equipment and assistive technology. Examples include, but are not limited to the following:

* + 1. Wheelchairs and scooters
		2. Braille note takers
		3. Assistive listening devices
		4. Telecommunications devices
		5. Electronic aids to daily living
		6. Visual aids with voice output or magnifying features
		7. Computers, tablets and adaptive peripherals, applications
		8. Building modifications for accessibility including labor
		9. Motor vehicles that have been adapted or need adaptations
		10. Hearing aids
		11. Seat lift chairs
		12. Recreational equipment including adapted bicycles, Nintendo Wii
	1. **Loan Restrictions.** AELP provides loans for the purchase of adaptive equipment or assistive technology devices and services. AELP will accept applications for the refinance of a purchase, however, if the application is submitted within 60 days of the purchase date of the item. During the refinancing application process, the applicant will be required to submit suitable proof of purchase date.
	2. **Credit Worthiness and Capacity to Repay the Requested Loan**. The criteria discussed below seek to produce a reasonable expectation that the applicant will repay the loan in full. The three most important criteria for an AELP loan are credit history, debt-to- income ratio, and capacity to repay. When the applicant has a history of credit problems, the applicant must be able to demonstrate that he or she has a workable plan to deal with those problems. A pattern of adverse credit actions that cannot be adequately explained and has not been adequately dealt with will result in a decision not to approve a loan.

 Similarly, an applicant who does not have adequate cash available to pay for a new loan after taking care of other financial obligations will not be approved for a loan. If the applicant has experienced a bankruptcy, she/he must be cleared from discharge for a minimum of one year.

 The following criteria will be examined in underwriting the loan application:

* + 1. ***Proof of Income***. An applicant will be required to provide proof of his/her current income. Acceptable documentation includes, but is not limited, to copies of IRS income tax return, a pay stub, W-2 form, child support, survivor benefits, an SSDI or SSDI Award Letter.
		2. ***Timely Payment of Residence Expense***. If the applicant owns or rents his or her residence, he or she must demonstrate that payments to the mortgage lender or landlord have been made in a timely fashion for previous 12 months.
		3. ***Credit History***. Experian credit reports, as well as AELP’s previous lending experience with the applicant, if any, are the primary sources of determining the applicants’ repayment habits.

 Provided the additional criteria below are met, AELP will accept an Experian credit reporting score of 0 (no credit history) or 569 and higher. If there are co-applicants, AELP will use the higher of the credit scores to determine eligibility. If the applicant has experienced any of the credit problems describe below within 12‑month period preceding the application, the applicant must demonstrate resolution of the credit problem, or the loan application will be denied.

### Credit Problems Within the Past Twelve Months

* 1. **Delinquency with a Creditor**. If the applicant has been delinquent with a creditor within the past 12 months, the applicant must adequately explain the reason for delinquency and provide satisfactory evidence that the delinquency has been cured.

If any of the following items are on the credit report and designated as “not paid,” evidence of full payment or a payment arrangement in place will be required: tax liens, civil judgments, levies, or child support obligations (both payments and receipts). If any of these items are on the credit report, but designated as paid, no additional evidence of payment will be required.

If the applicant indicates the child support payments are being paid, and there is nothing on the credit report or other available data to suggest otherwise, then no additional evidence of payment will be required.

* 1. **Collection Accounts**. If an account in collections is less than 1 year from last activity, payment arrangements must be established by the applicant (s). If the collection account has gone over a year since last activity and is over $100 it must be paid in full.
	2. **Medical Collections**. Medical collections if related to the applicant’s disability are excluded from credit evaluation, but in all events the applicant must still demonstrate a positive discretionary income as described above including medical collection payment at issue.
	3. **Education Loans**. Applicant must provide evidence of payment arrangements or deferment, including when re- payment will begin; education loans are generally not forgiven or discharged in bankruptcy.
	4. **Mortgages**. If mortgaged loans are being modified or refinanced, evidence from the lender must be provided. Mortgage foreclosures must be explained in writing.
	5. **Ability to Repay**. After a careful examination of these credit issues, the AELP Financial Service Provider must be satisfied that the applicant has the capacity and credit worthiness to repay the requested loan in full. An Applicant who lacks acceptable credit may apply or reapply with a qualified co- applicant or may apply for a loan at a later time should his/her financial circumstances change.
1. ***Debt-to-income ratio***. AELP requires documented proof of all income and debts. Up to a year of the most recent bank statements may be required to show all recurring debts. In the first instance, AELP looks for a debt-to income ratio of less than 50%. “*Debt-to -income ratio”* as used here means the relationship of an applicant’s fixed monthly debt to his/her monthly income. AELP will accept a 50% or higher debt-to-income-ratio if, but only if, the applicant can adequately document sufficient cash flow to make loan payments after meeting all other outstanding obligations and expenses. That is, the applicant must document positive discretionary income after the requested loan payment. The applicant’s monthly AELP loan payment will be included in the debt-to -income ratio calculation. If co-applicant is on application, AELP will consider the combined debt-to income ratio.
2. ***Discretionary Income.*** “Positive Discretionary Income” means that the applicant has documented reliable income in excess of the applicant’s monthly expenses, including all necessary and reasonable living expenses, all debt and expense obligations incurred, and the monthly payment obligations for the requested loan and any insurance that may be required for the equipment and/or device to be purchased. Applicants with a debt-to-income ratio of 50% must demonstrate positive discretionary income of at least 50% of the applicant’s proposed loan payment. In calculating discretionary income, the following will be included in evaluation of income and expenses. Expenses include, but not limited to, groceries, medical bills, utilities (heat, sewer, water, phone, etc.), rent/mortgage, real estate taxes, auto/transportation costs, clothing, insurance, education, credit card payments, child support or alimony, and other miscellaneous debts or expenses. AELP may require documentary proof for any or all these expenses. Income includes but not limited to, all wages, salary, commissions, interest, pensions, and other sources of financial support such as employment -related disability benefits, Supplemental Security Income (SSI), Social Security Disability Income (SSDI) and Social Security retirement benefits.
3. ***Credit Reports***. AELP will conduct its own credit checks on all applicants by using a recognized credit reporting agency.

**Section 5.** **ADDITIONAL LOAN PROCEDURES**

* 1. **Joint Check Issuance.** In most instances, loan proceeds will be payable to both the borrower and the supplier/vendor of the adaptive equipment or assistive technology device. If the vendor does not accept a two-party check or the borrower wishes to not be listed on the funds, the check will be made payable directly to the vendor.
	2. **Deadline for Loan Closures**. Once approved for a loan, the applicant must close the loan with the participating lender within ninety (90) calendar days of the date of approval. Applicants who have not closed their loans within the ninety-day period will need to submit updated information or may have to reapply.
	3. **Deferred Payments**. After a loan has been made, if the borrower encounters difficulty repaying his or her loan on time and requests deferral, up to three monthly payments can be deferred. The amount deferred will be added to the full loan commitment at the end of the life of the loan.

# Underwriting Guidelines for the AELP II Program

**Section 1.** **STATEMENT OF PURPOSE.**

 The founding intent and essential purpose of the Kim Wallace Adaptive Equipment Loan Program (“AELP”) is to provide financing for people with a disability within the State of Maine for the purchase of adaptive equipment or assistive technology that will help them live more independently. Per program rule, a segment of the loan portfolio can be loaned out for the purpose of assisting Mainers with disabilities to purchase used vehicles without adaptations necessary to obtain or retain employment or employment training, subject to limitations. The Board or any entity with which the board is contracted to provide financial support services may award loans based on the following program guidelines.

**Section 2.** **PROCEDURES and STANDARDS**

Loan applications shall be processed, and program eligibility will be determined according to the procedures and standards set forth in the Kim Wallace Adaptive Equipment Loan Program Rule, 94-178 Chapter 501, (“the Program Rule”). Where applicable, the definitions of terms contained in Section 1 of the Program Rule apply to the terms as they are used in these underwriting guidelines. To the extent consistent with the Act and Program Rule, the following underwriting guidelines shall supplement the Program Rule.

**Section 3.** **LOAN INTEREST RATES**

The interest rate for AELP II is 3.75% and is available to all applicants who qualify for a loan pursuant to the Act, the Program Rule, and these underwriting guidelines.

**Section 4.** **UNDERWRITING GUIDELINES**

* 1. **Loan Periods**. The term of each loan shall be based on the applicant’s circumstances and the useful life of the collateral:
* Used vehicles without adaptations- up to 6 years
	1. **Collateral.** Collateral will be required for all loans, AELP II will take a security interest in the vehicle being purchased. The value of the vehicle to be purchased will be determined using the official National Automobile Dealers Association (NADA) used car guide. If the purchase price of the vehicle does not meet the NADA value, then the loan will be denied. Under the AELP LL program, borrowers must use the purchased vehicle for the purpose of obtaining and retaining employment or employment training, subject to Section 7 of the program rule. Any misuse of the collateral will result in default.
	2. **Loan Restrictions.** AELP II provides loans for the *purchase* of vehicle for consumers with disability who demonstrate a need for vehicle subject to the program rule. Under the AELP-II program, a co-applicant is not allowed. A vehicle purchased through AELP II may be no more than 10 years old at the time of purchase.
	3. **Loan Limit**. The amount of a loan under AELP II shall not exceed the amount necessary to purchase the vehicle minus $800. The amount necessary to purchase the vehicle may include sales tax and, in the case of a purchase from or through a car dealer, the dealer’s associated fees.
	4. **Credit Worthiness and Capacity to Repay the Requested Loan**. The criteria discussed below seek to produce a reasonable expectation that the applicant will repay the loan in full. The three most important criteria for an AELP II loan are credit history, debt-to-income ratio, and capacity to repay.

When the applicant has a history of credit problems, the applicant must be able to demonstrate that he or she has a workable plan to deal with those problems. A pattern of adverse credit actions that cannot be adequately explained and has not been adequately dealt with will result in a decision not to approve a loan. Similarly, an applicant who does not have adequate cash available to pay for a new loan after taking care of other financial obligations will not be approved for a loan. If the applicant has experienced a bankruptcy, he or she must be cleared from discharge for a minimum of one year. The following criteria will be examined in underwriting the loan application:

* + 1. ***Proof of Income****.* An applicant will be required to provide proof of his/her current income. Acceptable documentation includes, but is not limited to, copies of IRS income tax return, up to 3 pay stubs, W-2 form, child support, survivor benefits, an SSDI or SSI Award Letter.
		2. ***Timely Payment of Residence Expense***. If the applicant owns or rents his or her residence, he or she must demonstrate the payments to mortgage lender or landlord have been made in a timely fashion for the previous 12 months.
		3. ***Credit History.*** Experian credit reports, as well as AELP and AELP II’s previous lending experience with the applicant, if any, are the primary sources for determining the applicant’s repayment habits. Provided the additional criteria below are met, AELP II will accept an Experian Credit reporting score of 0 (No Score) or 610 and higher. If the applicant has experienced any of the credit problems describe below within 12-month period preceding the application, the applicant must demonstrate resolution of the credit problem, or the loan application will be denied.

### Credit Problems within the past Twelve Months

* 1. **Delinquency with a creditor**. If the applicant has been delinquent with a creditor within the past 12 months, the applicant must adequately explain the reason for delinquency and provide satisfactory evidence that the delinquency has been cured. If any of the following items are on credit card report and designated as “not paid,” evidence of full payment or a payment arrangement in place will be required: tax liens, civil judgments, levies, or child support obligations (both payments and receipts). If any of these items are on the credit report, but designated as paid, the applicant need not provide additional evidence of payment. If the applicant indicates the child support payments are being paid, and there is nothing on the credit report or other available data to suggest otherwise, then the applicant need not provide additional evidence.
	2. **Collection Accounts**. Collection Accounts that are non- medical in nature are not permissible through the AELP II program unless the borrower can provide evidence that the account has been successfully disputed or cleared.
	3. **Medical Collections**. Medical collections if related to the applicant’s disability are excluded from the credit evaluation, but in all events the applicant must still demonstrate a positive discretionary income as described above including the outstanding medical collections.
	4. **Education Loans**. Applicant must provide evidence of payment arrangements or deferment, including when re- payment will begin; education loans are generally not forgiven or discharged in bankruptcy.
	5. **Mortgages**. If mortgage loans are being modified or refinanced, evidence from the lender must be provided. Mortgage foreclosures within 7 years of the application date are subject to review.
	6. **Ability to Repay**. After careful examination of these credit issues, the AELP II program must be satisfied that the applicant has the capacity and credit worthiness to repay the requested loan in full. An applicant who lacks acceptable credit may reapply for a loan later should his/her financial circumstance change.
1. ***Debt-to Income Ratio*.** AELP II requires documented proof of all income and debts. Up to a year of the most recent bank statements may be required to show all recurring debts. In the first instance, AELP II looks for a debt-to income ratio of less than 50%. “*Debt-to -income ratio”* as used here means the relationship of an applicant’s fixed monthly debt to his/her monthly income. AELP II will accept a 50% or higher debt-to- income-ratio if, but only if, the applicant can adequately document sufficient cash flow to make loan payments after meeting all other outstanding obligations and expenses. That is, the applicant must document positive discretionary income after requested loan payment. The applicant’s monthly AELP II loan payment will be included in the debt-to -income ratio calculation
2. ***Discretionary Income.*** “Positive Discretionary Income” means that the applicant has documented reliable income more than the applicant’s monthly expenses, including all necessary and reasonable living expenses, all debts and expense obligation incurred, and the monthly payment obligations for the requested loan and/or device to be purchased. Applicants with a debt-to-income ratio of greater than or equal to 50% must demonstrate positive discretionary income at least 50% of the applicant’s proposed loan payment. In calculating discretionary income, the following will be included in evaluation of income and expenses. Expenses include but are not limited to, groceries, medical bills, utilities (heat, sewer, water, phone, etc.), rent/mortgage, real estate taxes, auto/transportation costs, clothing, insurance, education, credit card payments, child support or alimony, and other miscellaneous debts or expenses. AELP II may require documentary proof for any or all these expenses. Income includes but is not limited to, all wages, salary, commissions, interests, pensions, and other sources of financial support such as employment - related disability benefits, Supplemental Security Income (SSI), Social Security Disability Income (SSDI) and Social Security retirement benefits.
3. ***Credit Reports*.** Credit checks will be conducted on all applicants by using a recognized credit reporting agency.

**Section 5. ADDITIONAL LOAN PROCEDURES**

1. **Deadline for Loan Closures.** Once approved for a loan, the applicant must close the loan with the participating lender within ninety (90) calendar days of the date of approval. Applicants who have not closed their loans within the ninety-day period will need to submit updated information or may have to reapply.
2. **Deferred Payments.** After a loan has been made, if the borrower encounters difficulty repaying his or her loan on time, they may request up to three monthly payments of deferred payments. The amount deferred will be added onto the full loan commitment at the end of the life of the loan.
3. **Joint Check Issuance.** AELP II requires that loan proceeds be payable to the borrower and the dealership/seller of the vehicle unless the seller does not accept a two-party check, in which case the check will be made payable to the seller.

# Loan Underwriting Guidelines for the AELP Business Loan Program

**Section 1.** **STATEMENT OF PURPOSE**

The founding intent and essential purpose of the Kim Wallace Adaptive Equipment Loan Program (“AELP”) is to provide financing for individuals within the State of Maine for the purchase of adaptive equipment or assistive technology that will help them live more independently. Per statute, there are funds available through a business loan program. These funds can be lent to a qualified business corporation or partnership which demonstrates that the loan will assist one or more persons with disabilities to improve their independence or become more productive members of the community. The AELP Board may make loan funds available to qualified borrowers or businesses for approved purposes in accordance with the program rule. The board, or any entity with which the board is contracted to provide financial support services, may award loans based on the following program guidelines.

 **Section 2.** **PROCEDURES AND STANDARDS**

 Loan applications shall be processed according to the procedures and standards set forth in the *Kim Wallace Adaptive Equipment Loan Program Rule*, 94-178 Chapter 501, (“the Program Rule. Where applicable, the definitions of terms contained in Section 1 of the Program Rule apply to the terms as they are used in these underwriting guidelines. To the extent consistent with the Act and the Program Rule, the following underwriting guidelines shall supplement the Program Rule.

**Section 3.** **LOAN INTEREST RATES**

The AELP business loan interest rate is based on the Federal Open Market Committee U.S. **Prime Rate**, as reported by the **Wall Street Journal** bank survey [https://www.bankrate.com/rates/interest-rates/wall-](https://gcc02.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.bankrate.com%2Frates%2Finterest-rates%2Fwall-street-prime-rate%2F&amp;data=05%7C01%7CNancy.Macirowski%40maine.gov%7C916d0cd2cdde4187610b08db0a1d0b34%7C413fa8ab207d4b629bcdea1a8f2f864e%7C0%7C0%7C638114892266198465%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C2000%7C%7C%7C&amp;sdata=mLZMSUTSI3%2BS4aMOsnlCasKlKGgje3fWgI%2F7AN2V8MY%3D&amp;reserved=0)  [street-prime-rate/**.**](https://gcc02.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.bankrate.com%2Frates%2Finterest-rates%2Fwall-street-prime-rate%2F&amp;data=05%7C01%7CNancy.Macirowski%40maine.gov%7C916d0cd2cdde4187610b08db0a1d0b34%7C413fa8ab207d4b629bcdea1a8f2f864e%7C0%7C0%7C638114892266198465%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C2000%7C%7C%7C&amp;sdata=mLZMSUTSI3%2BS4aMOsnlCasKlKGgje3fWgI%2F7AN2V8MY%3D&amp;reserved=0)The qualified borrower can expect to receive an interest rate reflective of the current interest market and the applicant’s qualifications.

The three available interest rates are:

* Prime -1
* Prime
* Prime +1

For further information on how this rate is determined, refer to the “*AELP Business Loan Matrix”* companion (**Appendix 1**) to these written guidelines.

## Section 4. UNDERWRITING GUIDELINES FOR THE AELP BUSINESS LOAN PROGRAM

* 1. **Loan Periods.** The term of each loan shall be based on the applicant’s circumstances and the useful life of the collateral.
		1. Building Modifications- up to 10 years
		2. New vehicles that need adaptations- up to 7 years
		3. Used vehicles that need adaptations- up to 6 years
		4. Lifts and elevators-up to 20 years
		5. Other - If the AELP business loan program has not established a loan period for a specific type of adaptive equipment or assistive technology knowledgeable individuals will be consulted to determine and assess the expected useful life.
	2. **Collateral.** Collateral will be required for all loans. The AELP business loan program will take a security interest in the adaptive equipment or assistive technology purchased. For real estate loans of $15,000 and greater, equipment loans of $10,000 and greater, and all vehicle loans, the security instrument will be filed or recorded as necessary to perfect the security interest. For all real estate loans that will require a mortgage as security, the AELP business loan program will first use the Tax Assessed Value. In some instances, an appraisal will be required.
	3. **Loan Restrictions.** The AELP business loan portion of the program provides loans for the purchase of adaptive equipment or assistive technology devices and services. The business portion of AELP will not accept applications for the refinance of a purchase.
	4. **Loan Limit**. The amount of the loan sought shall not, when added to the principal balance of any other outstanding or approved loans to or for the benefit of the same applicant/business, result in any one individual or entity becoming liable to the board as borrower or as guarantor for amount in excess of $100,000 in the aggregate.
	5. **Personal Guarantee**. The program requires that all owners of the business applicant with an ownership percent of greater than 20% of the business are required to provide a personal guarantee. In the event of a default, they also will be personally liable for paying any remaining loan balance.
	6. **Capacity To Repay the Requested Loan.** The criteria below seek to produce a reasonable expectation that the applicant(s) or business will repay the loan in full. The six most important criteria for an AELP business loan are credit history, cash flow, debt ratio, lien position, loan to value and management experience. A pattern of adverse credit actions that cannot be adequately explained and has not been adequately dealt with will result in a decision to deny a loan. **The following criteria that will be examined in underwriting the loan application in conjunction with the “Risk Rating Matrix**” (Appendix 1)
		1. ***Proof of Income.*** An applicant/business is required to provide proof of his/her/their current income. Acceptable documentation includes, but is not limited to, copies of IRS income tax returns, business income statements, business profit and loss statements, business cash flow statements.
		2. ***Credit History***. Experian credit reports, Experian Business Credit reports or Dun and Bradstreet Business credit reports will be used as the primary source of grading the applicant’s credit history. If there are co-applicant’s, the AELP business loan program will use the average of the combined credit scores. If the applicant(s)/ business have experienced any of the credit problems described below within the 12-month period preceding the application the applicant(s) must demonstrate resolution of the credit problem or the loan application will be denied.

## *Credit Problems within the past Twelve Months*.

* 1. **Delinquency with a Creditor**. If the applicant(s)/ business have been delinquent with a creditor within the past 12 months, the applicants(s) must adequately explain the reason for the delinquency and provide satisfactory evidence that the delinquency has been cured. If any of the following items are on the credit report and designated as “not paid” applicant is required to provide evidence of full payment or an established payment arrangement: tax liens, civil judgments, levies or child support obligations (both payments and receipts). If any of these items are on the credit report and designated as paid applicant need not provide additional evidence of payment. If the applicant(s) indicate the child support payments are being paid, and there is nothing on the credit report or other available data to suggest otherwise, then the applicant need not provide additional proof.
	2. **Collection Accounts**. Open collection accounts that are non- medical in nature will result in a decision to deny the loan unless the applicant(s) can provide evidence that the account has been successfully disputed or cleared.
	3. **Medical Collections**. Medical collections if related to the applicant’s disability are excluded from the credit evaluation, but in all events the applicant(s) must still demonstrate a positive discretionary income described above including the outstanding medical conditions.
	4. **Educational Loans**. Applicant (s) must provide evidence of payment arrangements or deferment, including when re- payment will begin; education loans are generally not forgiven or discharged in bankruptcy.
	5. **Mortgages**. If mortgage loans are being modified, evidence from the lender must be provided. Mortgage foreclosures are subject to review for 7 years prior to the application date.
	6. **Ability to Repay**. After a careful examination of these credit issues, the applicant must demonstrate capacity and credit worthiness to repay the requested loan in full. Applicant(s)/business lacking acceptable credit may apply/reapply with a qualified co-applicant or may apply for a loan at a later time should his/her fiscal circumstances change.
1. ***Cash Flow.*** The calculation of cash flow will use the required proof of all income and debts for both the business and business owner(s) if applicable. Up to a year of the most recent bank statements ma be required to show all recurring debts.

Additionally, up to the three years’ worth of the business’s Balance Sheets is required. The calculation used for this is EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) divided by total debt service. This is typically determined by net income, depreciation (including section 179) amortization and interest divided by the total debt service (payment requirements) for business, including existing and new financing requests. The calculation does not include taxes, but this information would flow through the personal tax returns and is usually minimal. The relationship between the operating cash flow of the applicant/business and its total liabilities will be assessed. This information is used to determine the ability to repay. After a careful examination of the cash flow, the applicant(s) must demonstrate the capacity and cash flow to repay the requested loan in full.

1. ***Debt Ratio*.** AELP business loans require documented proof of all income and debts for both the business and business owner(s) if applicable. Up to a year of the most recent bank statements may be required to show all recurring debts. The debt service coverage will be calculated for all applicants involved. This includes all owners that are required to give a personal guarantee. The combined debt ratio will be considered when grading on the companion worksheet.
2. ***Lien Position*.** The applicant’s offered lien position on the asset/s being offered as collateral will be considered and the score on the matrix will be based on lien position.
3. ***Loan to Value*.** The loan value ratio is used to compare the requested loan amount in relation to the value of the property securing the loan.
4. ***Management Experience*.** Management experience is weighed by amount of “relevant experience” the applicant(s)/business has running a business. Any history of business closure by the applicant(s) will be considered.
5. ***Credit Reports***. The AELP Business Loan Program will conduct its own credit checks on all applicants by using credit reporting agency, Microbilt.

## Section 5. ADDITIONAL LOAN PROCEDURES

1. **Joint Check Issuance.** AELP business loans require that loans are payable to the borrower and the dealership/seller/contractor unless the vendor does not accept a two-party check, in which case the check will be made payable to the seller.
2. **Loan Closing**. Borrowers are required to pay closing costs to allow for timely and thorough legal review of all loan documents. Once approved for a loan, the applicant must close the loan with the participating lender within ninety (90) calendar days of the date of approval. Applicants who have not closed their loans within the ninety-day period will need to submit updated information or may have to reapply.

STATUTORY AUTHORITY:

 10 M.R.S.A. §§ 371-377

EFFECTIVE DATE:

 July 26, 2023 – filing 2023-110

**Appendix 1 - Business Loan Matrix**

**Risk Rating**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **1****Superior** | **2****Desirable** | **3****Acceptable** | **4****Marginal** | **5****Substandard** | **6****Doubtful** | **7****Loss** |
| Credit History-(suggested range) | Clear- (750+) | 3 Derog max0>30 days(700-749) | 5 Derog max1>60 days(650-699) | 5 Derog max1>60 days(575-649) | Some >90 days- (500-574) | Many >90 days- (450-499) | Bankruptcy/Charge offs (Below 450) |
| Cash Flow | 2 years +1.3:1 | 1 year +1.15-1.25:1 | 1 year +1.1-1.15:1 | 0.8-1.1:1 | 0.6-0.79:1 | 0.5-0.6:1 | Insufficient or Pro Forma |
| Debt Ratio | 38% max | 40% max | 45% max | 48% max | Over 48% | Over 50% | Over 55% or Pro Forma |
| Lien Position | 1st |  |  | 2nd |  | Unsecured or>LTV |  |
| LTV | <70% | <80% | <90% | <95% | 96%-100% | 100 -101% | 101 - 105% |
| Management Exp | 6 years + | 5 years + | 4 years + | 3 years + | 2 years + | 1 years + | > 1 year experience |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Risk Factor Credit History | ARank (1-7) | BWeight 25% | AxB Total 0 | **Score of 1 - 3.99 = Approval****Score of ≥ 4.00 = Denial** |
| Cash Flow |  | 40% | 0 |  |
| Debt Ratio |  | 5% | 0 |  |
| Lien Position |  | 5% | 0 |  |
| LTV |  | 10% | 0 | **Score of 1 -1.99 = Prime -1** |
| Management Exp. |  | 15% | 0 | **Score of 2-2.99 = Prime** |
| **Total Score** | **0** | **100%** | **0** | **Score of 3-3.99 = Prime +1** |