

**Loan #** \_\_\_\_\_

<b>Name:</b>		<b>Loan Amount:</b>	
<b>Principal:</b>		<b>Advances:</b>	
<b>Property Address:</b>		<b>Unadvanced:</b>	
		<b>Loan Balance:</b>	
		<b>\$ Appraisal:</b>	
		<b>\$ Other Loans:</b>	

<b>Contractor's performance:</b> Describe borrower's qualifications and reputation (construction experience, D&B payment history, other credit reports)			
<b>Real estate market:</b> Demographic indicators, including population and employment trends; current and projected construction rates; current and projected operating expenses (market analysis section of appraisal).			
<b>Loan Documents:</b>	<input type="checkbox"/> Mortgage	<input type="checkbox"/> Title Insurance	<input type="checkbox"/> Insurance (property, liability, flood)
	<input type="checkbox"/> Note	<input type="checkbox"/> Commitment letter (final version)	<input type="checkbox"/> Post-closing review
<b>Appraisal:</b> Is collateral value inflated? Real estate values may be driven up by rapid turnover of ownership without any corresponding improvements to the property or supportable income projections to justify the increased values (discussion of the property's recent sales history on the appraisal).			
<b>Sources of repayment:</b> Net worth, pre-sale and minimum unit release requirements, other. Cash flow potential of the collateral property to repay the loan within a reasonable amortization period. Borrower's willingness and ability to repay the loan from other resources, if necessary. (the primary basis for the review and classification of the loan should be the original source of repayment and the borrower's intent and ability to fulfill the obligation without relying on third party guarantees; however, the ILRO should consider the support provided by any guarantees when determining the appropriate classification.) document credit analysis.			
<b>Unadvanced funds sufficient to complete project:</b> Consider inspection reports to compare budget to actual costs and compare draws to degree of completion.			
<b>Administration:</b> Control of funds when the loan agreement contains hold back, adequate hazard, builders risk, and workman's compensation insurance, lien searches prior to disbursement, unit releases corresponding to principal payments.			
<b>Classification:</b> Evaluation of each credit should be based upon the fundamental characteristics affecting the collectibility of the loan. If adversely classified loan, describe clearly the reasons why the loan is listed. The strong point of the comments should be in the direction of achieving correction of the deficiencies identified.			
<b>Date:</b> _____	<b>Prepared by:</b> _____	<b>Next review date:</b> _____	

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**SUBSTANDARD:** Any such troubled real estate loan, or portion thereof, should be classified Substandard when well-defined weaknesses are present that jeopardize the orderly liquidation of the debt. Well-defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

**DOUBTFUL:** Doubtful classifications have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. A Doubtful classification may be appropriate in cases where significant risk exposures are perceived, but loss cannot be determined because of specific reasonable pending factors that may strengthen the credit in the near term.

**LOSS:** Advances in excess of calculated current fair value, which are considered uncollectible and do not warrant continuance as bankable assets. There is little or no prospect for near term improvement and no realistic strengthening action of significance pending.

**SPECIAL MENTION** - The Special Mention category is not to be used as a means of avoiding a clear decision to classify a loan or pass it without criticism. Neither should it include loans listed merely "for the record" when uncertainties and complexities, perhaps coupled with large size, create some reservations about the loan. If weaknesses or evidence of imprudent handling cannot be identified, inclusion of such loans in Special Mention is not justified.

Ordinarily, Special Mention credits have characteristics which corrective management action would remedy. Often the bank's weak origination and/or servicing policies are the cause for the Special Mention designation. The ILRO should not misconstrue the fact that most Special Mention loans contain management correctable deficiencies to mean that loans involving merely technical exceptions belong in this category. However, instances may be encountered where technical exceptions are a factor in scheduling loans for Special Mention.

Careful identification of loans which properly belong in this category is important in determining the extent of risk in the bank's loan portfolio and providing constructive criticism for bank management.