

Appendix I

Model Loan Servicing Procedures

APPENDIX I

LOAN SERVICING

CHAPTER 1 - INTRODUCTION

1. WHAT DOES THIS PART COVER?

This Part provides guidelines for servicing activities for loans made under the guaranty Program.

A. How is this Part Organized?

This Part provides both the regulations and the policy you need to know how to perform your job in loan servicing. The applicable Regulations are cited in the various sections of this Part where they apply.

B. What are the Sources of Authority and Guidance for Servicing Activity?

As a loan servicing official you must be aware that all servicing activities you take must conform to the:

- Small and Medium Enterprise Act;
- Regulations;
- Agency policy and procedures, including this, and
- Agency Form _____, "Loan Guaranty Agreement" as executed by the cooperative bank and the Agency.

CHAPTER 2 – BASICS OF LOAN SERVICING

1. HOW DOES THE AGENCY SERVICE LOANS?

A. What is a Servicing Action?

A servicing action is any action that changes the existing terms of the loan. Generally, a servicing action results from a request from the borrower for Agency-serviced loans, and from the lender for loans serviced by them. Servicing actions generally require that loan servicing "recommending" and "approving" officials complete an Agency loan servicing form, "Modification or Administrative Action", hereafter referred to Form _____.

B. Who Has Authority to Take Servicing Actions on Agency Loans?

The approving official. An approving official is an Agency staff member who has met the requirements outlined in the Delegations of Authority published in the Regulations, and who is authorized by his/her supervisor to take such actions.

This Part will identify the actions that will require a higher level of approval (e.g., actions requiring the approval of the Program Manager or designee).

All servicing actions taken under delegated authority must reflect the recommendation(s) of the recommending official who initiated the action and approval by an approving official. Both officials must be certified under the delegation of authority to take the action. This process is called the "Rule of Two." It is important to recognize that you must carefully exercise this loan servicing authority.

(a) Prudent lending practices must always be followed. All actions must be consistent with applicable loans and regulations,

(b) Servicing actions must be taken only if:

- i. It will assist the enterprise in solving the problem and improve its ability to repay the loan; and
- ii. It will assist the Agency in realizing maximum recovery.

C. Which loan servicing Actions Must Agency Counsel Review?

- a. Legal counsel must review all loan servicing form actions involving the following activities (exceptions are noted in the corresponding categories):

- (1) Exceptions to policy;
- (2) Conflict of interest/preference;
- (3) Acquisition of environmentally impaired property;
- (4) Transfer of a loan to another lender;
- (5) Subordinations (review includes the loan servicing form action and other documents deemed necessary);
- (6) Assumptions (review includes the loan servicing form action and other documents deemed necessary);
- (7) Release or substitution of collateral;
- (8) Release or substitution of obligors;
- (9) Workouts;
- (10) Purchase under the Agency guaranty, including "repairs" and denials of liability;
- (11) Deeds in lieu of foreclosure;
- (12) Review of liquidation plans (for issues regarding legal compliance, e.g., legal expenses);
- (13) Payment of attorneys' fees;
- (14) Transfers of a loan into litigation;
- (15) Transfers of a loan out of litigation;
- (16) All loan servicing form actions on loans in litigation status;
- (17) Purchase and/or payment of prior liens;
- (18) Payment of real estate taxes;
- (19) Compromise actions;
- (20) All charge-offs;
- (21) Any other document or loan servicing form action with issues regarding legal compliance; and

(22) Substantive revisions to the loan authorization;

- b. Counsel must refer all purely credit issues or administrative aspects to servicing personnel.
- c. For lender-serviced loans, the lender is responsible for the proper preparation and legal review of all documentation.

D. What other loan servicing actions should Agency Counsel review?

- Besides the loan servicing form actions listed above which counsel should review, counsel should also review:
- Transfers into liquidation status
- Protective bids at foreclosure sales Assignment for the benefit of creditors
- Alterations in the terms of any loan instrument
- Disposal of Purchased Collateral
- Transfers to servicing from liquidation and Abandonment of collateral.

CHAPTER 3 - GENERAL

1. LOAN SERVICING REQUESTS AND ACTIONS

A. General Guidelines for Loan Servicing and Agency's Policy on Lender Servicing.

- a. It is Agency policy that all lenders must service and liquidate all loans, except when the Agency exercises its right to assume servicing or liquidation due to poor performance on the part of the lender.
- b. This chapter provides a description and guidance for processing of servicing requests received from borrowers and lenders. For most servicing actions, the process is the same for lenders, and Agency personnel. Actions delegated to the lender must follow the same requirements. Exceptions to this general policy are noted.
- c. As you follow the guidance of this Part, remember three factors:
 - (1) The individuality of each enterprise;
 - (2) Your loan servicing responsibility; and
 - (3) The general steps for loan servicing.
- d. Each enterprise is unique. For that reason:
 - (1) Analyze all servicing actions within the context of the situation and
 - (2) Consider what is in the best interest of the enterprise borrower and the Agency.
- e. Follow accepted standards of prudent lending. Loan servicing includes monitoring or reviewing:
 - (1) Borrower's enterprise operations, as generally reflected in the borrower's financial statements and other information
 - (2) Borrower's loan repayment history
 - (3) All actions must be commercially reasonable and
 - (4) Lender's servicing and liquidation actions must be consistent with the lender's procedures on non-Agency loans.

f. Loan servicing assistance involves:

- (1) Recognizing a borrower's opportunity for growth;
- (2) Recognizing a problem or potential problem early;
- (3) Identifying the basic reason for a servicing action; and
- (5) Determining the solution and taking appropriate action.

B. What is the Objective of Loan Servicing Actions?

Loan servicing should reflect a positive outlook to meet the short and long term needs of the enterprise. You must recognize the possible results of your action (or inaction) on the ultimate success of the borrower.

You are responsible for:

1. Servicing actions necessary to support the normal growth of the enterprise; and
2. Evaluating and responding to problems, which may arise. This may require providing relief to the borrower through modification of loan terms.

C. What are Indicators of Potential Servicing Problems?

- a. The loan servicing function starts at the time of initial disbursement. You should continuously monitor your portfolio for warning signals.
- b. Warning signals include:
 - Payment default notices or checks returned for insufficient funds (NSF);
 - Requests for relief in loan terms and conditions;
 - Cash flow problems (e.g., placement of borrower on Cash On Delivery by suppliers);
 - Adverse changes or declining financial/economic trends in the trade;
 - Cancellations of life or hazard insurance policies;
 - Death or illness of a principal(s);
 - Tax problems (local, Provincial, or National)
 - Substantive changes in officers, managers, ownership, control, or method of operation;
 - Fire or loss of collateral due to natural disasters;
 - Legal actions;
 - Loss of contracts; and

- Borrower's failure to submit financial statements timely.
- c. Enterprise loan delinquencies in excess of 60 days should trigger intensive servicing activity by the Credit Officer since this is a prime symptom of underlying problems.

D. How Should You Prepare a Response to a Servicing Request?

- a. You must be familiar with all documents, which contain the terms and conditions for the loan (e.g., notes; mortgages; loan, guaranty, and participation agreements).
- b. Documentation, terms and conditions vary with different loan programs. You should be familiar with the loan programs and their required documents. For individual loan servicing actions, you may need to review the following:
 - (1) Loan application and related documents;
 - (2) Processing Credit Officer's report;
 - (3) Authorization;
 - (4) Settlement Sheet (for follow-up if counsel's review indicates problems); and
 - (5) All documents supporting the loan (Note, lien instruments, evidence of insurance, etc.).

E. What is required in the Servicing Request to Agency?

In general, requests for all servicing actions should address a common set of elements from which you can make a decision. For lender-serviced loans, the lender must submit to Agency the information necessary to support the proposed action. For Agency-serviced loans, you must tell the borrower what information to submit.

- a. Each servicing request to the Agency should include:
 - (1) A statement of the proposed action.
 - (2) A description of why the request is needed.
 - (3) A summary of the analysis of the enterprise, including analysis of financial statements.

NOTE: For Agency-serviced loans, you should request that the borrower submit year-end and interim statements, if available.

- (4) Summary of prior servicing experience with the borrower.
- (5) Identification of guarantors/co-makers and a statement as to whether their consent for the proposed action has been or will be obtained.
- (6) A summary of the impact/benefit of the action on the enterprise.
 - (a) Will the proposed action address the needs or solve the problem of the enterprise?
 - (b) Will the action protect the interests of the lender and Agency?

For lender-serviced loans, a copy of their internal credit memorandum may be used if it provides the information necessary for you to consider their servicing requests.

F. What are Additional Requirements for Actions Affecting the Loan Collateral?

It is Agency's policy to protect its interests by maintaining responsible control over collateral items pledged to secure the loan. For issues regarding adjustments to the collateral, it is necessary for you to fully review the benefits and risks.

- a. Servicing request:

For all actions which affect "collateral," you must address the following items in addition to those listed in paragraph 4-5 titled, "What is Required in the Servicing Request to Agency?"

 - (1) Summary of prior collateral actions approved by the lender/unilaterally that Agency has not acknowledged; and
 - (2) Summary analysis of collateral before and after the requested change.
- b. Valuation of collateral:
 - (1) Appraisals:

A recent appraisal prepared by a qualified appraiser must indicate the fair market value of the collateral. If an appraisal is not available, you must identify the alternative form of valuation (such as net book value, property tax assessment, internal valuation, etc.).
 - (2) Valuation of collateral:

Generally, you calculate the net realized value of collateral by applying the following liquidation percentages to the fair market value (if you use alternative liquidation values, please justify):

Real Property:

Commercial RE.	75%
Residential RE	80%
Unimproved Land	50%

Enterprise Assets (net of Depreciation):

Machinery/Equipment.....	50%
Furniture/Fixtures	10%
Accounts Receivable/Inventory.....	.20%
Leasehold Improvements05%

c. Best interests of borrower:

- (1) You should not use abundance of collateral as a reason to approve a servicing request if the action is not in the best interests of the borrower and Agency.
- (2) Similarly, you should not decline a servicing request if the action is in the best interests of the borrower/Agency when the lack of collateral is the sole reason for the decline.

G. What is a Modification or Administrative Action?

The term "Modification or Administrative Action" refers to an decision to modify the authorization or other decisions which are necessary to help the borrower respond to an business growth opportunity or to respond to a problem. It also refers to decisions that Agency may take that would effect the loan, (e.g., change the status of loan from regular servicing to "in-liquidation," to transfer the loan from one lender to another, etc.)

Modifications or administrative actions on specific loans are taken by the completion of an Agency loan servicing form. The result is a loan servicing action.

H. Maintaining Record of Servicing Requests, Actions, and Loan Account Communications.

You must maintain records of all servicing requests, actions approved/declined and other communications regarding loans. Such records are critical to loan servicing personnel in all offices that service the lender//borrower loan account.

I. What are Seasoned Loans?

- a. The term "seasoned" loan applies to a borrower's loan that has demonstrated excellent repayment history over a period of time. For this reason, servicing requirements should generally be less stringent for "seasoned" loans. However, you must exercise care to avoid abuse of the classification.
- b. If you recommend an action based on the "seasoned" loan classification, you must identify this classification in the loan servicing form action.
- c. "Seasoned" loans are those loans that meet the following criteria:
 - At least 4 years have elapsed since the loan was funded, or for loans under 7 years, where the original principal balance has been reduced at least 25 percent.
 - The loan has been paid "as agreed" for the past 12 months
 - Collateral is at or near "approval" levels, subject to any approved modifications
 - The financial statements are favorable
 - The account is satisfactory in all other respects.

J. What Lender Actions Must Have Agency's Approval?

1. Imposed by regulation:

What servicing actions require the prior written consent of Agency?

Except as otherwise provided in a Guaranty Agreement with the Lender, Agency must give its prior written consent before the Lender takes any of the following actions:

- (a) Alters substantially the terms or conditions of any Loan Instrument (for example, any increase in the principal amount or change in the interest rate, or action conferring a Preference on the Lender);
- (b) Releases collateral having a cumulative value in excess of 20 percent of the original loan amount;
- (c) Accelerates the maturity of the note;

- (d) Sues upon any Loan Instrument;
- (e) Compromises or waives any claim against any Borrower, guarantor, obligor or standby creditor arising out of any Loan Instrument; or
- (f) Increases the amount of any prior lien held by the Lender on the collateral securing the loan.

2. Agency policy also requires prior written approval when there is:

- (a) The acquisition or purchase of environmentally impaired property; and
- (b) Any contested litigation and litigation involving fees over _____.

K. What is Unilateral Authority?

- a. To help streamline delivery of its financial services to enterprises, Agency places increased reliance on its private sector lending partners. The Agency encourages its lending partners to utilize "unilateral authority" (i.e., without prior written consent of Agency) whenever possible.
- b. It is important to recognize that you and the lender must NOT exercise "unilateral authority" indiscriminately.
 - (1) Prudent lending/credit practices must always be used.
 - (2) Unilateral actions can be taken only when they:
 - (a) Assist the enterprise in solving a problem;
 - (b) Assist in its ability to repay the loan;
 - (c) Will not adversely affect the interest of the lender/Agency; and
 - (d) Are in compliance with all applicable laws and regulations.
 - (3) Remember that certain terms and conditions were placed in the loan and agreed to by all parties (borrower, lender, and Agency):
 - (a) To ensure repayment ability and success of the enterprise; and
 - (b) As a condition to the approval of the loan.

L. What Actions May the Lender Approve with Unilateral Authority?

Lenders have unilateral authority to make adjustments in the terms and conditions of a loan if Agency does not consider the action to be "substantial" and the action does not confer a preference on the lender. The lender must notify Agency on all actions that they take using unilateral authority. They must also document the borrower's file for all unilateral actions taken.

The following is a listing of allowable unilateral actions lenders may take without the prior written consent of Agency. This is not all-inclusive, but rather a compilation of the most frequently occurring loan servicing actions. Appropriate circumstances for unilateral actions include:

- a. Correcting obvious typographical errors in the loan authorization.
- b. Providing pay-off figures to the borrower (the lender is not required to provide or send a copy to Agency).
- c. Modifying financial statement requirements.

The lender may:

- (1) Waive audited financial statements, for seasoned borrowers, using prudent credit practices, or change the audit requirement to compilation and/or review where,
 - (a) In the judgment of the lender, the enterprise is not of a size and type to warrant such statements; or
 - (b) The cost would be prohibitive to the borrower.
 - (2) Grant waivers for only 1 year at a time and must reserve the right to reinstate the requirement in the event of loan default.
 - (3) Approve changes in financial statement frequency and/or due date requirements, as necessary consistent with prudent lending/credit practices.
- d. Deferment of principal and/or interest payments.

A deferment is defined as the postponement of scheduled loan payments of principal and/or interest to a later date.

(1) Lender Serviced Loans

- (a) The lender may defer the borrower's payments of principal and/or interest. The principal payment may be deferred to the

next month or further (e.g., to the maturity of the note). However, interest continues to accrue even if the payment of interest is deferred. When the next scheduled payment is due, it will be allocated to interest first then to principal. The interest payment is not deferred to the end of the note.

(b) The amount deferred must not exceed a cumulative total of 6 months during the life of the loan or a cumulative value in excess of 20 percent of the original amount of loan, whichever is less.

(c) The lender must retain deferment documentation in the loan file, including current financial statements.

(2) Interest accrual notification.

The lender must notify the borrower that interest continues to accrue during any period of the deferment. When payments resume they will be applied first to accrued interest and then to principal.

(3) Consent of borrower and guarantors.

The lender must obtain written consent of the borrower and all guarantors.

(4) Reinstatement of default.

If a loan was in default when a deferment was approved, and the borrower has not made the first payment by the time the deferment expires, the loan will be reclassified as in default.

e. Release of collateral.

The lender may release collateral up to a cumulative value of 20 percent of the original loan amount. To do this the lender must determine the value of the collateral to be released at the time of the decision to release. The borrower should use proceeds from release of collateral for enterprise purposes. The lender should rarely give favorable consideration to release enterprise assets in order to provide funds for personal reasons. There must be ample indication that:

(1) The remaining collateral or enhanced repayment ability is reasonable in relation to the outstanding loan balance; and

- (2) The release will not materially interfere with the operation of the enterprise or decrease the value of the other collateral securing the loan; or
- (3) The action is clearly necessary for the survival of the enterprise, and future repayment from profits is anticipated.

NOTE: The lender must obtain written consent of all guarantor(s) and advise the Agency of the release of collateral.

f. Substitution of collateral.

The lender may:

- (1) Substitute automotive or other minor equipment (with equal or greater value) taken as partial collateral for the loan.
- (2) Substitute equal, or greater equity, in like kinds of collateral, (e.g., exchange of real property excluding the primary real estate for the location of the principal enterprise operation).

g. Subordinations to senior liens.

- (1) The lender may permit the subordination of collateral for refinancing of senior liens held by another lender if:
 - (a) The refinancing is on more favorable terms for the borrower; and
 - (b) The borrower does not receive any funds from the refinancing (e.g., there is no increase in the principal balance of the senior lien, except for reasonable closing costs of refinancing).
- (2) The lender is responsible for ensuring that this action does not adversely affect the priority of the lender/Agency lien.

h. Changes to life insurance or hazard insurance requirements.

- (1) The lender may make changes to life insurance or hazard insurance requirements in accordance with the lender's own standard practices.
- (2) On current loans, the lender may release insurance proceeds for the repair or replacement of damaged collateral.
- (3) Cash surrender value of life insurance may be released, subject to the restriction noted in this section in the earlier sub-paragraph 13.e, "Release of collateral."

i. Adjustments to the installment amount.

- (1) The lender may adjust the installment amount to allow for correct amortization of the balance as a result of interest rate changes or anticipated balloon balances. This adjustment may be made only upon written consent of the borrower, all guarantors, and the secondary participant, if any.

NOTE: This provision does not affect variable interest rate loans that already have the provision to increase or decrease the payment amount, to an amount necessary to amortize the principal remaining unpaid after any scheduled interest rate change under the terms of the note.

j. Make loans to the borrower that does not affect the collateral.

The lender may make loans to the borrower that does not affect the collateral lien position supporting the Agency guaranteed loan. This includes purchase-money loans for enterprise assets and loans subordinate to the Agency guaranteed loan.

k. Assumptions -- Approve a borrower's change in form of organization.

- (1) The lender may authorize the assumption of an Agency loan when a borrower changes its form of organization, provided there is:
- (a) No release or subordination of existing collateral;
 - (b) No release of original obligor(s) or guarantor(s) (no change in ownership or management); and
 - (c) No decrease in equity position of the enterprise as a consequence of the assumption. (An example of this is when a partnership is converted to a corporation, and the same partners now have the same percentage ownership in the corporation as they had in their partnership.)
- (2) The lender must ensure that the guaranty of the original borrower and guarantors are maintained.

l. Adjustments to management covenants.

The lender may, using prudent credit practices, approve adjustments to management covenants (e.g., limitations on compensation, fixed assets,

working capital maintenance levels, lease liabilities, or dividend payment), if the loan:

- (1) Is seasoned;
- (2) Has not been extended or deferred within 24 months before the date of the adjustment request; and
- (3) Reflects that repayment ability/cash flow exists for all debt including the Agency guaranteed loan after the adjustments to the management covenants have been made.

m. Accept prepayments.

- (1) For lender-serviced loans, the lender may accept partial or full prepayments of the loan account.

CHAPTER 4 - SPECIFIC LOAN SERVICING ACTIONS

1. Servicing Actions During the Disbursement Period.

- a. The division approving the loan retains the loan until it is fully disbursed. This division is responsible for the loan until it is:
 - (1) Fully disbursed;
 - (2) Transferred into "Regular Servicing division.

2. Preparation and Submission of a Servicing Request.

For the preparation and the submission of a request of all actions noted in this chapter, you must follow the guidance set out in Chapter 4 "General Loan Servicing Request and Actions" in paragraph 4 "How Should You Prepare a Response to a Servicing Request?" and paragraph 5 "What is Required in the Servicing Request to Agency?"

3. Requests for Information.

A common loan servicing action involves responding to a request for information. If you are unsure whether the request is being made by a duly authorized representative of the borrower you should request written authorization from the borrower. For other parties follow directions as may be developed with the institution of a Credit Reporting System within the PRC. For lender-serviced loans, the borrower should contact the cooperating lender directly.

When an auditor or someone seeking credit confirmation contacts you, you must verify that the borrower has provided written authorization to release the requested data.

(1) For lender-serviced loans, the lender will respond.

(2) For Agency-serviced loans, you must respond.

4. Release of Collateral.

- a. What is a release of collateral?

A release of collateral occurs when Agency or, when authorized, a lender or, releases the security interest or lien on specific loan collateral. The request may be for a full release of all collateral or a partial release of only a portion of the collateral. A release of collateral requires legal review.

- b. How do you process a release of collateral?

To release collateral, you must make a credit decision regarding the impact of the release on the interests of the borrower, lender, and Agency. Generally, the borrower must maintain collateral coverage:

- (a) At or near the "approval" level; or
 - (b) At an amount to protect the remaining balance of a seasoned loan.
- However, primary consideration must be repayment ability from profits and cash flow, and not liquidation of assets.

- c. Agency counsel review of loan servicing form actions for collateral release.
 - (1) The Agency counsel must review all loan servicing form actions involving release of Agency collateral for Agency-serviced loans.
 - (2) Counsel must determine if notice to or consent of the guarantor(s) is required and determine the consequences, if any, of noncompliance by the Agency for Agency-serviced loans.

5. Subordination of Collateral/Lien.

A subordination occurs when a third party is permitted to take a superior lien on specific collateral on an Agency loan.

A. There are generally three types of subordination requests:

- (1) A request to subordinate Agency's/lender's lien on specific collateral to a third party for a specific period of time.
- (2) A request by a lender to increase the amount of financing which has a superior lien to an existing Agency lien.
- (3) A request to allow an extension of an existing subordination of an Agency lien. If the extension is for the purpose of refinancing, you will not need to prepare a complete analysis when the refinancing is for the loan balance plus normal refinancing costs.

B. How do you process a subordination of collateral?

- (1) Lender-serviced loans.
 - (a) You must review the request and supporting documentation to ensure that the lender addressed the critical elements and necessity of the recommended action to the survival or growth of the enterprise.

(b) Lender-serviced loans will not require Agency approval or signature on the subordination documents. The Agency relies on the lender's attorney to review documents for legal sufficiency.

(2) Agency-serviced loans.

You must additionally work with counsel to prepare required subordination documents for execution by the borrower, the third party lender and the Agency.

NOTE: You must follow the same guidelines for the "Release of Collateral" when considering a subordination of collateral.

C. Agency counsel must review all instances of subordination of collateral.

6. Substitution of Collateral.

a. What is a substitution of collateral?

A substitution of collateral occurs when you allow the lender/Agency to take a security interest in one item or type of collateral while releasing its interest in another item or type of collateral previously taken.

b. How do you process a substitution of collateral?

(1) General guidance.

You may recommend approving a substitution of collateral where:

(a) The collateral being substituted is similar in nature (e.g., the substitution of one piece of real estate for another --NOT to include the primary real estate for the principal enterprise operation) and provides equal or greater equity; or

(b) The replacement collateral has a higher level of confidence (e.g., a cash collateral account or real estate as compared to leasehold improvements or receivables).

(2) Agency-serviced loans.

The Agency will prepare the required collateral substitution documents.

(3) Lender-serviced loans.

You are not required to recommend approval of the substitution documents. The Agency relies on the lender's attorney to review

documents for legal sufficiency. Agency counsel must review all loan servicing form actions involving substitution of collateral.

7. Deferments of Loan Payments.

a. Deferment of payment.

The Agency may agree to defer payments on an enterprise loan for a stated period of time, and use such other methods, as it considers necessary and appropriate to help in the successful operation of the Borrower.

b. What is a deferment?

(1) A deferment is a postponement of a payment (principal and/or interest) to a later date without causing the loan to be considered late or in default.

The purpose of a deferment is the enhancement of a borrower's cash flow to assist the borrower in responding to short-term needs.

(2) You must not grant a deferment for the sole purpose of statistical reduction of the Agency's delinquency rate.

Note: Deferments should be used only where it appears that it will assist the borrower in solving a temporary cash flow problem.

c. When and how do you approve a deferment?

(1) You may recommend approving deferment of future loan payments.

Generally, you must not approve deferment of more than 6 months in the future. No single deferment action must exceed 1 year of future payments. A 1 year deferment should be used only when absolutely necessary and with strong justification.

(2) You may recommend approving a deferment of delinquent loan payments only if:

(a) The borrower has a workout plan that will allow the loan to be repaid through regular installments (returning the loan to regular servicing); and (b) It appears that the deferment will solve the problem. This should only be used as an exception.

(3) Before approving a deferment or an extension of a deferment, the borrower should provide you with updated financial statements [e.g., the last year end and interim (current within 90 days) financial statements]

(4) Agency and lender-serviced loans.

- (a) You or the lender, under unilateral authority, may recommend approval of a deferment of payments until the maturity of the loan. You or the lender should notify the borrower that the deferred amount will result in:
 - (i) A balloon payment at maturity, or
 - (ii) The need to extend the maturity of the loan.
 - (b) As an alternative, the borrower may establish a payment plan to return the loan to the regular payment schedule before loan maturity.
- (5) Lender-serviced loans sold on the secondary market.
- d. Does interest accrue during a deferment?
- (1) Yes, interest will continue to accrue during the deferment period. You must inform the borrower that payments will apply to accrued interest first and then to principal following the deferment period.
 - (2) If the borrower makes partial loan payments during the deferment period, the payments will be applied first to accrued interest and then to principal.
 - (3) In some cases, you may want to approve deferment of principal only. However, particularly during the early years of a loan, this may not grant significant relief to the borrower. You should consider the deferment of principal and interest if the cause for the deferment is justified.
- e. If the first payment following the deferment is missed.

The lender must immediately notify Agency if the borrower misses the first payment following the deferment period. If this occurs, you must make a determination as to whether to grant another deferment or to transfer the loan into intensive servicing/loan workout.

8. Inter-Creditor Agreements.

- a. What is an inter-creditor agreement?

When two or more lenders make separate loans to a borrower with commonality of loan purpose and/or collateral, the lenders enter into an "Inter-Creditor Agreement" to delineate their:

- (1) Rights to the collateral;
- (2) Responsibilities for loan servicing; and
- (3) Rights/responsibilities in the case of a borrower default on one or all of the loans.

- b. How do you process inter-creditor agreements?
 - (1) You must carefully review the complete inter-creditor agreement to ensure that:
 - (a) Agency's collateral lien positions are not adversely affected; and
 - (b) You agree with the rights and responsibilities for loan servicing and possible default.
 - (2) If the borrower requests a collateral action (subordination, substitution, release, etc), you must have written concurrence that all parties are in agreement.
 - (3) The inter-creditor agreement must be reviewed by Agency counsel.

9. Assumption of a Loan by an Unrelated Party.

- a. What is an assumption of a loan?

An assumption of a loan occurs when one legal entity takes on the contractual obligation of another legal entity. This usually occurs when an enterprise is sold.
- b. What are some of the different types of assumptions?
 - (1) When the borrower changes form of legal entity or
 - (2) If an individual is looking to purchase a enterprise in which they are currently employed and in which they hold a key management position, you may not need to conduct a detailed credit analysis as required for individuals not associated with the firm.
- c. How do you process a loan assumption?
 - (1) You must:
 - (a) Identify the reason for the assumption. Except for unilateral authority actions, the assumption must have prior approval of the Agency.
 - (b) Analyze an assumption request in the same way that you would analyze a new loan application.
 - (c) Have counsel review the assumptor's form of legal entity and related organizational documents.

- (d) Check the assumption agreement to identify the terms of the assumption for all parties.
 - (e) NOT release existing obligors from liability, except in rare cases and if the assumptor is "reasonably equal" or better in the areas of both financial and enterprise experience. This release must be supported in the loan servicing form action.
- (2) If the existing obligor is receiving substantial income from the transaction and there is doubt whether the assumptor is "reasonably equal," you should not release the existing obligor and should obtain a stand-by agreement if a note was executed for these funds.
- d. Agency counsel reviews loan servicing actions for loan assumptions. The Agency relies on the lender's attorney to review documents for legal sufficiency.

10. Processing "Paid in Full" Loans.

When a loan is "paid in full," you must release all collateral of any nature, unless the collateral is pledged to secure another loan.

- a. Agency-serviced loans.

You may recommend approval of the release of collateral by loan servicing form action if:

- (1) Payment in full is by certified or cashier's check; or
- (2) Payment in full is by check from an attorney or escrow agent, and you are confident that no problems will be encountered in collecting any outstanding balance.

- b. Lender-serviced loans.

The lender is responsible for releasing collateral for lender-serviced loans. The Agency relies on the lender's attorney to review documents for legal sufficiency.

11. Proceeds from Condemnation of a Borrower's Collateral.

You must determine whether the loss of the property being condemned will adversely affect the operation of the enterprise.

- a. **If the borrower uses the proceeds from the condemnation to replace the condemned property, you may release the proceeds:**

- (1) To the borrower, if the borrower documents the replacement and you have the required liens on the replacement property; or
- (2) To a trustee, if the trustee will release funds as the borrower replaces the collateral and will file the required liens on the replacement property.

b. You may release the proceeds to the borrower without consideration, if:

- (1) The property condemned is not significant to the operation of the enterprise;
- (2) The loss does not adversely affect the value of Agency's collateral; and
- (3) The proceeds from the condemnation are not significant (less than _____ or ____ percent of the loan whichever is greater).

12. Release of, or Changes to, a Standby Agreement.

For you to be able to recommend a borrower's request to make a full or partial payment to a standby creditor, you must:

- a. Prepare an Agency Form loan servicing form.
- b. Weigh the original reasons for requiring the standby agreement against the present ability of the borrower to pay the standby creditor.
- c. Consider the risk, if any, to full and timely repayment of the Agency loan. You must analyze the effect of the change on the cash flow of the enterprise in conjunction with all other debts (including Agency's).
- d. For this action to be approved, cash flow/repayment ability for all debts, including debts on Agency loans, must exist.

13. Guarantor Release/Substitution.

You may, using a loan servicing form action, recommend the release of a secured or an unsecured guaranty, or accept other guaranties or collateral of any worthwhile type, in substitution for a secured or an unsecured guaranty being released.

- a. Guarantor's obligation for repayment.

Personal guaranties on Agency Form _____ are guaranties of payment of the entire indebtedness unless specifically limited or qualified. When a loan becomes significantly delinquent, guarantors should be advised of their obligation and requested to cure the default or see that the borrower makes arrangements to do so. If it is apparent that the borrower's financial condition will not allow payments to keep the loan current, and the guarantors have the

financial ability to make payments, they should be required to do so. The Agency guaranty forms provide that guarantors must furnish financial statements on request. Accordingly, if there is any question as to the ability of the guarantors to furnish aid to the borrowers, statements should be obtained.

b. Criteria to be considered before effecting release.

The following points must be considered before taking any actions to release or substitute guarantees.

- (1) The status of the loan should be current in all respects without a history of unjustified delinquencies, unpaid taxes, or deferment of installments
- (2) The satellite office must have a written request from the borrower, the guarantor to be released, or the proposed substitute.
- (3) The written consent of all parties (e.g., other guarantors, standby creditors, etc.) must be obtained before the transaction is finalized.
- (4) You must obtain the opinion of counsel showing that no legal rights of the Agency will be adversely affected.
- (5) Sale or reorganization. Where a request is received for the release of a guarantor because of reorganization or sale of the firm, you must obtain full information as to the terms and conditions of the proposed transaction. You must take care to ensure that the guarantor's position is not improved at the expense of Agency, or that a possible loss to the guarantor is not passed on to the Agency. Wherever possible, you/lender should urge the parties to pay off the debt to Agency (or apply any available cash to it), and require the guaranty to the extent of the cost paid to him/her (limited guaranty). The guarantor should not be permitted to substitute Agency for his or her ownership position.
- (6) Evaluation of substitute guarantors. Before you recommend accepting a substitute guarantor in place of the original, you should analyze/compare the values of the guarantors. The borrower must furnish personal financial statements and any other information satisfactory to the approving official.
- (7) Claim against estate of deceased debtor. **Reserved for further information regarding pending PRC laws pertaining to estates.**

14. Extension to the Maturity of the Borrower's Loan.

- a. Maximum maturities based on the Act.

(1) The maximum term is ____ years for Agency loans, which includes renewals and extensions.

b. Justification for extension of maturity.

As a general rule, you may extend the maturity of a loan (but not beyond the statutory maximums) if the borrower is not able to pay off the loan balance at the original note maturity date, because the borrower received a deferment(s), or reduction in loan payments, during the term of the loan which resulted in a balloon at the end of the note.

c. Loans sold in the secondary market. **Reserved for the establishment of a secondary market in the PRC.**

15. Interest Rate Changes.

a. Lender-serviced loans.

For changes to the borrower's interest rate that result in an increase to the rate, the lender must have Agency's prior written consent. This does not apply to the prime feature of a variable rate loan. The lender must have Agency's approval to increase the spread on a variable rate loan. (e.g., prime + 1 -- The "prime" rate can be adjusted according to the note and authorization. The spread "+1" must not be increased without Agency's approval.)

b. Interest rate increases.

You should NOT recommend approval for an increase in the interest rate unless the increase results in an overall lower cost to the borrower. [e.g., Where two outstanding loans had different rates and had been refinanced into one loan (decreasing the rate for one and increasing the rate for the second) resulting in a reduced combined payment and cost to the borrower.]

16. Other Loan Repayment Term Changes.

You may recommend approving a change in the frequency of payments (e.g., from monthly to quarterly, seasonal, annual, etc.). The change should not result in a change in the amount of principal reduction, unless other factors indicate that the change is desirable. For any change in payments, you must consider the impact on the cash flow of the borrower.

17. Borrower Financial Statements: Changes in Form or Frequency.

a. The loan authorization generally requires the borrower to periodically submit balance sheets and profit and loss statements b. There are generally four types of financial statements. Three types of financial statements are prepared by an

independent accountant: audited, reviewed, and compiled. There are also the internally prepared statements that are prepared by the enterprise itself.

(1) Audited.

Audited financial statements are prepared by and verified by an independent auditor. They include a study and evaluation of internal accounting control. The accountant/auditor will provide an opinion of the statements based on an examination made in accordance with generally accepted auditing standards and may include any other tests that the auditor may deem necessary.

Opinion statements must be prepared by an independent public accountant who acceptable to the Agency. The accountant is independent when neither he/she nor an immediate family member has a material, managerial, or financial interest, directly or indirectly in borrower's enterprise operation other than as an accountant. An accountant's unqualified opinion is his/her statement that the data submitted fairly represents the financial condition of the enterprise.

(2) Reviewed.

An accountant performs inquiry and analytical procedures (e.g., limited testing of accounts) that provide a reasonable basis for the accountant to express limited assurance that there are no material modifications that should be made to the statements for them to be in conformity with generally accepted accounting principals. A review would not include a study and evaluation of internal accounting control and other aspects of an opinion audit. Consequently, a review may disclose certain important matters but not necessarily all matters that would be disclosed in an audit.

(3) Compiled.

A compilation involves the accountant putting together the financial statements of a firm without auditing or expressing any opinion on the statements.

(4) Internal.

Internal statements are prepared by the borrower for which there is no minimum accounting standards.

a. Borrower's certification.

- (1) A borrower's certification is a statement by the owner, a general partner, or an authorized officer of a corporate

borrower that to the best of his/her knowledge the data submitted fairly represents the enterprise financial condition.

- (2) You should require a Borrower's Certification when the loan balance exceeds _____ and:
 - (a) The financial statements have a qualified opinion (e.g., the data was not verified) or the accountant otherwise disclaims responsibility for the fairness of the statements and data. The qualified statements should be addressed as notes in the financial statements. When the qualification is based on limitations of scope, it should be addressed in the auditors report.
 - (b) The financial statements are a compilation or internally prepared statements.
- (3) If a qualified opinion is provided for a loan over _____, the borrower should satisfactorily explain the reasons for the qualified statements.

b. You should review the financial statements. If no substantially adverse information and/or trend is evident, you should place a comment in the loan file that the statements have been reviewed. If you see an adverse trend or other information, you should determine if a full reconciliation is necessary. The following are some problem indicators:

- (1) Operating losses;
- (2) Deficit or negative net worth;
- (3) Excessive salaries, dividends, and owner's equity withdrawals;
- (4) Excessive increase or decrease in accounts receivable (A/R) or inventory;
- (5) Excessive increase or decrease in accounts payable (A/P) and notes payable (N/P);
- (6) Slow collection of A/R and slow payments of A/P; and
- (7) Tax liabilities of any substance.

c. Form of statements required.

- (1) You may require audited year-end statements to properly analyze the condition of the enterprise due to the size of the loan or the complexity of the enterprise. You should use discretion in requiring audited statements because of the high cost to the borrower.

- (2) Interim statements may be accepted as presented with the accountant's or the borrower's certification that they are correct and complete. You should analyze interim statements submitted with a loan-servicing request.
 - (3) A borrower may not have available financial statements to support a requested servicing action. In this case, you may accept other financial information such as income tax returns, credit reports, etc.
- d. If audited statements are required and if the loan is seasoned, you may recommend:
- (1) Waiving audited financial statements, or changing the audit requirement to compilation or review where, in your judgment:
 - (a) The enterprise is not of a size and type to warrant such statements;
 - (b) The payment and servicing history is satisfactory; or
 - (c) The cost would be prohibitive to the borrower.
 - (2) Granting waivers for only 1 year at a time and must reserve the right to reinstate the requirement in the event of loan default.
 - (3) Recommending approving changes in financial statement frequency and/or due date requirements, as necessary.

CHAPTER 5 - WORKOUT AND INTENSIVE SERVICING RESPONSIBILITIES OF SATELLITE OFFICES AND LOAN SERVICING CENTERS

1. General Guidelines for Intensive Servicing.

a. What is intensive servicing?

It is the last phase of regular servicing before the loan is transferred into liquidation status.

b. When is intensive servicing appropriate?

- (1) Intensive servicing efforts are appropriate when the loan is delinquent or the enterprise has suffered an adverse change, and circumstances indicate that the loan may still be paid in full through regular payments. The objective of intensive servicing is a loan workout.
- (2) A workout is:
 - (a) An attempt by Agency, sometimes in conjunction with other creditors, to allow a borrower to restructure its debt(s); and
 - (b) A last effort to allow the borrower who is experiencing cash flow and repayment difficulties, to keep its debt current.
- (3) The purpose of the workout is to allow a borrower to structure a payment plan that will ultimately allow the loan to be paid in full. A workout often takes the place of pending liquidation action.
- (4) The consideration Agency gives to the workout is an agreement to postpone on declaring the loan in default or taking liquidation action.
- (5) In a workout effort, you will utilize any appropriate servicing actions, or combination of actions, to keep the enterprise viable, at the least expense and cost to Agency and lender.

c. What is Agency's policy on workouts?

- (1) Workouts help fulfill Agency's intent to foster the growth and success of enterprise concerns. Workouts usually are preferable

to liquidation action for all concerned. In any workout, you must keep these two concerns in mind:

- (a) Creating a practical repayment plan for the borrower which will allow the enterprise concern to keep operating; and
- (b) Ensuring that the workout adequately protects Agency's interests.

(2) The "rule of two" is required for workout strategies outlined in this chapter.

2. What Questions Must You Ask Before You Process a Workout?

- (a) Status of loan?
- (b) Scope of responsibility to develop a workout?
- (c) Who at the Agency can process the work-out?
- (d) Was the loan sold on the secondary market?
- (e) What portion of the loan was sold?
- (f) Will lender be responsible for developing a workout with Agency concurrence?
- (g) Agency has purchased its guaranteed share?

You should consider taking back servicing on the loan from the lender if:

- (a) You believe the lender is being unreasonable by not doing a workout which is in the borrower's and Agency's best interests; or
- (b) The lender has an actual or apparent conflict of interest between the Agency-guaranteed loan and other unguaranteed loans the lender has made to the same borrower.

3. What are the Issues You and Lender Should Consider Before Agreeing to a Workout?

- a. Is a workout a reasonable alternative?
 - (1) A fundamental question you should answer is whether any action or combination of actions will be likely to help resolve the borrower's problems. This will require you to consider what problems caused the borrower to be unable to pay its debt.
 - (2) If you determine that no actions, which you might take, will help the borrower keep its enterprise viable and restructure its debt at minimum

expense to Agency, you must transfer the loan to "in liquidation" and begin appropriate liquidation activities.

b. What is the status of borrower's enterprise?

Before you agree to any workout actions, you must determine:

- (1) Whether the borrower's cash flow is sufficient to service the debt, after covering all operating costs.
 - (a) Ask the borrower to submit current enterprise (and possibly personal) financial statements, as appropriate.
 - (b) Ask the borrower to project its debt servicing ability, based on the proposed workout.
 - (c) Ask borrower to disclose other debt and workout arrangements that exist.
 - (d) Reserved for the development and use of a Credit Reporting System.
- (2) Whether the borrower has any pending or threatened legal action(s), which may impact the enterprise operations or Agency's collateral.
 - (a) Ask the borrower to disclose any pending or threatened legal actions.
 - (b) For example, suppliers have put the borrower on a cash only basis, and threatened legal action because of borrower's failure to pay outstanding bills for supplies.

c. What is the status of Agency's collateral?

Before you agree to any workout actions, you must determine the status of the Agency collateral including (The lender should assist in providing this information if they are servicing the loan.):

- (1) Whether Agency's liens have been properly filed and are legally enforceable.
 - (a) Did the borrower sign the security agreement to create a lien against personal property at the time of closing?
 - (b) Did the borrower sign the deed of trust/mortgage to create a lien against real property at the time of closing?

- (c) Was the financing statement appropriately filed as provided for within the laws of the PRC?
 - (d) Does the public filing remain in effect?
 - (e) Was the deed of trust/mortgage properly recorded at the time of closing?
- (2) Whether there are other liens, including junior liens, on Agency's real property and personal property collateral.
- (a) Ask the borrower to make a full disclosure (i.e., status, amount, collateral) of all outstanding debts, tax debts, judgments, and liens, whether recorded yet or not.
 - (b) Conduct a search of the real property and personal property lien filing records.
- (3) Whether hazard insurance is in effect on the real property and personal property collateral. Ask the borrower to produce records on hazard insurance policies and loss payable endorsements, if required for the loan.
- d. Can you require borrower to correct deficiencies as part of the workout?
- (1) As a condition of the workout, you must require the borrower to correct any deficiencies in the documentation for the loan, to the extent possible.

4. What are Some of the Actions Available for a Workout?

You may use a variety of actions to facilitate a workout. Frequently, a combination of actions works best for intensive workouts. For example, a retroactive deferment, interest rate reduction, and re-amortization will bring the loan current, and modify the future payments to a level sustainable by the borrower.

- a. Alternative actions in accomplishing a workout:
 - (1) Defer loan payments.
 - (2) Reduce amount of loan payments on a temporary basis.
 - (3) Re-amortize loan payments.
 - (4) Extend maturity date
 - (5) Adjust the interest rate.
 - (6) Create a separate note(s) receivable.
 - (7) Subordinate, release, or take additional collateral.

5. Real Property and Personal Property Appraisals.

In a loan workout situation, it is critical that you know the value of the assets pledged to Agency to assist you in weighing the choices available to help a borrower survive and to protect Agency's interests. Incorrect value estimates can result in:

- (a) Unrealistic expectations of recovery and borrower performance;
- (b) Failure of workout efforts;
- (c) Unnecessary foreclosure expenses;
- (d) Acquisition of Collateral that is not readily disposable; and
- (e) Reduction of net recovery, caused by high holding costs and other expenses, or by unknowingly selling assets (or allowing them to be sold) at depressed prices.

You should obtain a current appraisal(s) in order to accurately determine the value of the collateral. Generally, you should not rely on an appraisal older than 1 year. However, you must consider the particular workout situation, the nature of the assets, and local market trends.

CHAPTER 6 - MISCELLANEOUS ISSUES REGARDING PARTICIPATION LOANS

1. When is the Agency released from liability on its guaranty?

- a. Agency is released from liability on a loan guaranty (in whole or in part, within Agency's exclusive discretion), if any of the events below occur:
 - (1) The Lender has failed to comply materially with any of the provisions of these regulations, the Loan Guaranty Agreement, or the Authorization;
 - (2) The Lender has failed to make, close, service, or liquidate a loan in a prudent manner;
 - (3) The Lender's improper action or inaction has placed Agency at risk;
 - (4) The Lender has failed to disclose a material fact to Agency regarding a guaranteed loan in a timely manner;
 - (5) The Lender has misrepresented a material fact to Agency regarding a guaranteed loan;
 - (6) Agency has received a written request from the Lender to terminate the guaranty;
 - (7) The Lender has not paid the guaranty fee within the period required under Agency rules and regulations;
 - (8) The Lender has failed to request that Agency purchase a guaranty within 120 days after maturity of the loan;
 - (9) The Lender has failed to use required Agency forms or exact electronic copies; or
 - (10) The Borrower has paid the loan in full.
- b. If Agency determines, after purchasing its guaranteed portion of a loan, that any of the events set forth in paragraph (a) of this section occurred in connection with that loan, Agency is entitled to recover any money paid on the guaranty plus interest from the lender responsible for those events.
- c. If the Lender's loan documentation indicates that one or more of the events in paragraph (a) of this section may have occurred, Agency may undertake such investigation as it deems necessary to determine whether to honor or deny the

guaranty, and may withhold a decision on whether to honor the guaranty until the completion of such investigation.

- d. Any information provided to Agency prior to Lender's request for Agency to honor its guaranty shall not prejudice Agency's right to deny liability for a guaranty if one or more of the events listed in paragraph (a) of this section occur.
- e. Unless Agency provides written notice to the contrary, the Lender remains responsible for all loan servicing and liquidation actions until Agency honors its guaranty in full.

2. Cancellation, Termination, and Expiration of an Agency Guaranty.

a. Voluntary cancellation by lender.

(1) Upon written notice to Agency, a lender may request that Agency terminate or cancel the guaranty on any of its Agency loans provided:

- The Agency has not purchased the loan,
- The loan is not paid in full; and
- The lender has not assigned or transferred the loan to another party.

(2) A lender may request that Agency cancel a guaranty in circumstances where Agency intends to seek a denial of liability on the guaranty, or where the lender has a conflict of interest between the Agency loan and other non-Agency loans to the same borrower.

If you receive a request for cancellation or termination of the guaranty from a lender, you must:

- (a) Execute a loan servicing form action recommending approval of the cancellation. Route the action to the approving official under the rule of two,
- (b) Use the date of receipt of the letter from the lender as the effective date of cancellation, and
- (c) Advise the lender in writing that Agency has canceled the guaranty.

b. Involuntary cancellation or termination by Agency.

(1) General guidance. In certain circumstances, Agency can terminate its guaranty on a loan without the lender's concurrence.

(2) Nonpayment of guaranty fee. If a guaranty fee has been due and unpaid for 90 days, Agency may terminate its guaranty.

(3) Maturity of loan.

- (a) The regulations state Agency's obligation to purchase a guaranty on a specific loan expires _____ days after the maturity date of the loan.
- (b) The lender may request in writing that Agency extend the purchase deadline prior to _____ days after the maturity date. The Agency may, at its sole discretion, approve an extension of maturity under the Rule of Two.
- (c) When a guaranty is terminated because _____ days have passed since the date of maturity, you must notify the lender in writing that the Agency has canceled the guaranty.
- (d) The Agency may, as an exception to policy, and at its sole discretion, approve a reinstatement of a guaranty after the _____ days has elapsed since the maturity of the loan. Such action requires the approval of Program Manager or designee.

(4) Improper Transfer of Loan

3. Reinstating an Agency Guaranty.

a. Erroneously reported "paid in full" loans.

- (1) Occasionally, a lender will erroneously report that a guaranty loan is "paid in full". If the lender wants to have the Agency guaranty reinstated, it must advise Agency in writing:
 - (a) Explaining what caused the mistake;
 - (b) Providing the current balance of the loan; and
 - (c) Certifying that no default or substantial adverse change has occurred.
- (2) Except in unusual situations justified in a request for an exception to policy, the Agency must not reinstate the guaranty if your review indicates:
 - (a) A substantial adverse situation has occurred since the date of termination;
 - (b) The guaranty fee remains unpaid; or
 - (c) The borrower has an uncured default in payment of principal or interest.

- (3) You must prepare a loan servicing form action for approval of a reinstatement using the rule of two.
- b. Canceled or terminated guaranty
- (1) The Agency may, at its sole discretion and on a case-by-case basis, consider reinstatement of a canceled or terminated guaranty on a loan not purchased, provided that the cancellation was not intentional. An example would be a lender inadvertently marks the Agency Form _____, "Guaranty Loan Status and Lender Remittance." as "PAID IN FULL."
 - (2) For Agency to consider a request for reinstatement of a guaranty, the lender must request the reinstatement in writing and certify:
 - (a) That the loan is current;
 - (b) That there has been no adverse change and the lender has no knowledge that an adverse change is imminent;
 - (c) That the lender has paid the guaranty fee;
 - (d) The current loan balance; and
 - (e) The explanation for the cancellation and reinstatement of the guaranty.
 - (3) In order to process a request for reinstatement, you must:
 - (a) Execute a loan servicing form action reflecting the above details of the loan;
 - (b) Forward your loan servicing form action to the approving official for approval under the rule of two;
 - (c) Send a copy of the approved action to the designated accounting division within the Agency; and
 - (d) Notify the lender in writing that Agency has reinstated the guaranty.