

Appendix M

Central Re-Guaranty Loan Program **Rules and Regulations**

APPENDIX M

CENTRAL RE-GUARANTY ASSOCIATION (CRA)

RE-GUARANTY PROGRAM REGULATIONS

§ 1. Purpose of CRA

The Central Re-Guaranty Association, (CRA) was established to assist in supporting the extension of credit to small and medium enterprises, (SMEs) located in the Peoples Republic of China through a credit enhancement guaranty or re-guaranty to specific governmental and private sector entities.

§ 2. Management of CRA

Authorities and responsibilities of management of the CRA that are not covered in these Regulations are determined by the Central Re-Guaranty Association through its members and Board of Directors as permitted under the By-laws of the Association. The daily operation of the CRA is the responsibility of the Director, who is appointed by the Board of Directors of the Association.

The Director determines and approves all policies covering the programs and services of the CRA within broad guidelines established by the Board of Directors.

The Director employs personnel, within the Laws of the Republic of China and the guidance issued by the Board of Directors to implement the programs and services authorized by the Board of Directors.

The Director may delegate certain activities by issuing regulations or otherwise to lower level positions within the organization and may establish office locations within the directions given by the Board of Directors.

§ 3. CRA's Headquarters

The Headquarters of the CRA is at _____. Other office locations are listed below:

§ 4. Use of Association's Name or Logo

All references to the Central Re-Guaranty Association, the use of its logo must be done in strict compliance with the By-Laws of the Association and cannot be used by any entity or person not a member of the CRA.

§ 5. Government and Private Sector Partnership

The CRA assists government and private sector entities to strengthen and broaden their loan guaranty and re-guaranty activities to lenders by providing a supplemental credit enhancer, (a guaranty or re-guaranty) to those entities that are eligible under these Rules and Regulations.

The programs of the CRA are intended to be self-supporting through fees and membership dues as provided for in the Association's By-laws.

§ 6. Program Eligibility Requirements

The CRA Re-Guaranty Program is restricted to entities that meet all the requirements of these Regulations and the By-Laws of the Association now published or as amended from time to time.

The following entities, authorized under the Laws of the Peoples Republic of China are eligible for membership into the Association and participation in its programs and services:

- a. Provincial Re-Guaranty organizations.
- b. City Guaranty organizations where Provincial Re-Guaranty programs are not available.
- c. Private sector guaranty programs when not covered by Provincial programs.
- d. Lenders where guaranty programs are not established or currently being operated by local, provincial or private sector entities.

The above entities will be known as program participants.

§ 7. Participation Agreements

The CRA may enter into a Guaranty or Re-Guaranty Agreements, (blanket agreements), with eligible program applicants. Such an agreement specifies the authorities and responsibilities of each party and allows for the future participation of the participant in the re-guaranty program. The blanket agreement will be signed when the applicant becomes a member of the association. The existence of a blanket agreement does not obligate either party to enter into specific guarantees or re-guarantees but provides the parties the authorities, responsibilities and conditions of any guarantees or re-guarantees entered into in the future.

§ 8. Requirements for all Participants

In addition to being an association member in good standing, a participant, to the satisfaction of CRA, must have:

- a. A continuing ability to evaluate the credit being extended by lenders participating in their program, the ability to assess the accompanying risks of such credits, and the ongoing monitoring capabilities to properly service the credits.
- b. In place acceptable credit policies and procedures governing the loans being made, guaranteed or re-guaranteed including legally acceptable credit documents that protect the interests of the program.
- c. Program review standards and guidelines and a history of reviews that have been conducted on the lenders in the program.
- d. Accounting and loan tracking systems that adequately monitor loan, guaranty or re-guaranty portfolios.
- e. Established a reserve fund that adequately addresses the potential risk being taken by the entity in a given loan, a group of loans or in a total portfolio and has a capital position that is adequate for the continued operation of the entity.
- f. Implemented prudent lending practices in operating its lending, guaranty or re-guaranty authority and have trained management and personnel normally expected in such organizations.
- g. Continuing good character and reputation, and otherwise meet and maintain the ethical requirements set out by the Association.

§ 9. Preferences

An agreement to participate under any program of the Association may not establish any preferences in favor of a member, (participant) beyond what is allowed in these Regulations or the written agreements, allowed by these Regulations that are entered into by the parties.

§10. Conducting Business with CRA-Key Definitions

The following are key definitions used in conducting business with the CRA:

- (a) Agent: An Agent means an authorized representative, including an attorney, accountant, consultant, packager, lender or any other person representing the participant by conducting business with the CRA.
- (b) Conducting Business: Conducting business means preparing or submitting on the behalf of an applicant an application for membership to the CRA or an application for benefits under any programs of the on; participating with or communicating in any way with officers or employees of the CRA in regards to any pending matters before the CRA or requests submitted or to be submitted to the CRA.
- (c) Participant: A participant means a person or entity that is participating in any of the programs of the CRA.
- (d) Associate of the Lender, Guarantor or Re-Guarantor:

§ 11. Conducting Business with the CRA

The following individuals may conduct business with the CRA:

- a. If you are an officer of an eligible applicant or an officer of a current participant you may conduct business with the CRA without a representative.
- b. If you are an agent, you may conduct business with the CRA on behalf of an applicant or participant, unless otherwise prohibited by law or any other part of these regulations. The CRA may request that any Agent supply written evidence of his or her authority to act on behalf of an applicant or participant as a condition of revealing any information about the applicant's or participant's current or prior dealings with the CRA.

§ 12. Suspension or Revocation of Agent's Privilege

The Director or his or her designee may, for good cause, revoke or suspend the privilege of any Agent to conduct business with the CRA. Any unlawful, unethical or activities that violate the By-Laws of the association or these regulations is good cause for suspension or revocation of the privilege to conduct business before the CRA.

§ 13. Access to Participant's Files

A participant must allow CRA's authorized representatives, during normal business hours, access to its files to review, inspect and copy all records and documents relating to single loans or loan pools that CRA has been requested to re-guaranty or has previously re-guaranteed.

§ 14. Suspension or Revocation of Eligibility to Participate

The CRA may suspend or revoke the eligibility of a participant to participate in any of the programs operated by the CRA because of a violation of these or any other regulations published by the CRA, a breach of any agreement with the CRA, a change of circumstance resulting in the participant's inability to meet operational requirements, or a failure to engage in prudent credit practices. A suspension or revocation will not invalidate a re-guaranty previously provided by the CRA.

§ 15. Records

Each participant must comply with the following requirements concerning records:

- a.** Maintenance of Records: Each participant must keep records that are acceptable to the CRA and must maintain accurate and current financial records, including books of account, minutes of stockholder, directors and executive committee meetings and all documents and supporting materials relating to the participant's transactions at its principal business office.
- b.** Preservation of records: The participant must preserve in a manner permitting immediate retrieval of the following documentation for the financial statements required by the CRA for the following specified periods:
 - (1) Preserve permanently:
 - (A) All general and subsidiary ledgers, (or other records) reflecting asset, liability, capital stock and surplus, income and expense accounts;
 - (B) All general and special journals (or other records forming the basis for entries in such ledgers); and
 - (C) The corporate charter, bylaws, all documents relating to the application, and determination of membership in the CRA and any supporting documents submitted to the CRA.
 - (2) Preserve for at least 6 years following final disposition of a related loan or portfolio covered by a CRA guaranty of any type.
 - (A) All applications for financing;
 - (B) Lending, participation, and all other Agreements entered into with the CRA.

- (C) Financing instruments; and
 - (D) All other documents and supporting material relating to such loans or pools of loans, including correspondence.
- (3) Records and other documents referred to in this section may be preserved electronically if the original is available for retrieval within a reasonable period of time.

§ 16. Reports to CRA

A participant must submit the following to the CRA:

- (a) An audited financial statement prepared by a certified public accountant within three months after the close of each fiscal year, and interim financial reports when requested by the CRA.
- (b) A report of any legal or administrative proceeding, by or against the participant or against an officer, director, or employee of the participant for an alleged breach of official duty, within 10 days after initiating or learning of the proceeding, as well as notification of the terms of any settlement or final judgment.
- (c) Copies of any report furnished to its stockholders (including any prospectus, letter or other publication concerning the financial operations of the participant.
- (d) A summary of any changes in the participant's organization or financing, such as:
 - (i) Any change in its name, address or telephone number.
 - (ii) Any change in its charter, bylaws, or its officers or directors.
 - (iii) Any change in capitalization.
 - (iv) Any changes affecting the eligibility of the participant to continue as a member in good standing of the National Re-Guaranty Association.
 - (v) Such other reports, including portfolio status reports on loans included under any programs and services of the CRA as may be required by the CRA, including periodic reporting on status

of individual loans or loan portfolios that the CRA has supported with its programs or services.

§ 17. Prohibited financing

The participant may not make, guaranty or re-guaranty a loan to a small business that is an associate of the lender.

§ 18. Audits

Every participant is subject to periodic audits by the CRA or entities designated by the CRA.

§ 19. Administration of Loans and Portfolios

Participants in the programs and services provided by the CRA shall monitor the activities of those entities in which they have provided guarantees or re-guarantees, using methods and guidelines approved by the CRA. Participants will have in place such policies, practices and controls on their participants, (lenders or guarantying organizations) that will assure that prudent lending practices are being implemented by those lenders making, servicing and liquidating loans and those organizations that are guarantying and re-guarantying those loans.

§ 20. Release of Re-Guaranty

The CRA is released from liability on any loan or pool of loans, (in whole or in part, within CRA's exclusive discretion), if any of the events below occur:

- (a) The participant has failed to comply materially with any of the provisions of these regulations, any agreements entered into with the CRA, effecting the collect ability or collateralization of any loan or pool of loans.
- (b) The participant has failed to make, close, service, or liquidate a loan or pool of loans in a prudent manner;
- (c) The participant's improper action or inaction has placed the CRA at risk;
- (d) The participant has failed to disclose a material fact to the CRA regarding a loan or pool of loans in a timely manner;
- (e) The participant has misrepresented a material fact to the CRA regarding a loan or pool of loans;
- (f) The CRA has received a written request from the participant to terminate the guaranty or re-guaranty;

- (g) The participant has not paid the fee or fees required under the service provided by the CRA within the specified time limits set by the CRA;
- (h) The borrower has paid the loan in full; and
- (i) In the matter of the re-guaranty of loan pools or loan portfolios, the CRA will not pay on any losses until such time as the reserve pool of the participant has been depleted in full.
- (j) If the CRA determines, after paying a guaranty or re-guaranty of a loan or a pool or portfolio of loans that any of the events set forth in paragraphs (a) through (h) above occurred in connection with that loan, pool of loans or a portfolio, the CRA is entitled to recover any money paid, plus interest, from the participant.
- (k) If the participant's documentation indicates that one or more of the events listed in this section may have occurred, the CRA may undertake such investigation as it deems necessary to determine whether to honor or deny payment of its obligation, (in whole or in part).
- (l) Unless the CRA provides written notice to the contrary, the participant remains responsible for all oversight responsibilities of loans, loan pools or loan portfolios covered by CRA programs and services.

§ 21. Servicing and Liquidation Activities

The servicing and liquidation of all loans, loan portfolios or loan pools is the responsibility of the participant unless the CRA notifies the participant that it has decided to take over such responsibility. In such instances, the CRA shall state in writing the reasons for such take over of the servicing or liquidation activities.

The CRA in its sole discretion may elect to have any lower level lender or guarantor currently involved in the loans, loan pools or loan portfolios of the participant to continue to service and liquidate the loans, loan pools or loan portfolios in question, name other entities to perform that function or perform those functions itself.

§ 22. Guaranty or Re-Guaranty of Individual Loans

The CRA may, in its sole discretion, guaranty or re-guaranty individual loans that become part of a participant's loan portfolio, in the amount or percentage of loan so specified by the CRA and under the conditions set-forth in a Loan Authorization issued by the CRA, providing the participants adhere to the following criteria:

- (a) Meet all the requirements of these Regulations and the By-Laws of the Association and is a member in good standing.

- (b) The individual loan has been processed, closed, and fully disbursed in accordance with all policies, and procedures either approved by the CRA or published by the CRA and in accordance with all conditions so specified in the Loan Authorization.
- (c) The participant has certified in writing that the loan is current as to principal and interest and has never been more than 29 days delinquent in any payments.
- (d) The participant pays the specified amount of the re-guaranty set by the CRA for the specific risk that is being taken on the individual loan within the time frame specified in the Loan Authorization.

In no event is the CRA allowed to re-guaranty a specific loan greater than ___ % of the participant's exposure or in a monetary amount greater than _____. A participant's exposure is that amount of guaranty or re-guaranty that the participant has exposed itself in any given loan.

Any funds received by the participant on loans guaranteed or re-guaranteed by the CRA shall be first applied to interest due on the loan with the balance of any payments being applied to principle.

§ 22. Payment of Guaranty or Re-Guaranty on Individual Loans

When an individual loan that has been guaranteed or re-guaranteed defaults on payments for a period of 60 days or more, the CRA will pay the participant for the pro-rata share, as specified in the Loan Authorization, of the unpaid principle balance on a loan after the liquidation of collateral, providing that the participant has met the conditions set-forth in these regulations, policies and procedures and the conditions of the Loan Authorization.

All funds received by the participant or the CRA after the date that the CRA makes payment on its guaranty or re-guaranty shall be shared between the participant and the CRA in the same percentage of interest as shown in the Authorization.

Under no circumstances shall the liability of the CRA exceed the stated exposure in the Guaranty or Re-Guaranty Agreements.

§ 23. Re-Guarantying Loan Pools or Loan Portfolios

The CRA may, in its sole discretion, guaranty or re-guaranty loans of selected existing loans or total existing loan portfolios, in the amount or percentage so specified by the CRA and under the conditions set-forth in a Pool Authorization

Agreement issued by the CRA, providing the participants adhere to the following criteria:

- (a) Meet all the requirements of these Regulations and the By-Laws of the Association and is a member in good standing.
- (b) The selected loans or total portfolio have been processed, closed, disbursed, and serviced in accordance with all policies, and procedures either approved by the CRA or published by the CRA and in accordance with all conditions so specified in the Loan Authorization and the Participant so declares in writing to the CRA.
- (c) That the participant certifies in writing that each loan or portfolio of loans is current as to principal and interest and has never been more than 29 days late in any payment.
- (d) The participant pays the specified amount of the re-guaranty fee set by the CRA for the specific risk that is being taken on the selected loans or total portfolio of loans within the time frame specified in the Re-Guaranty Authorization.
- (e) That the participant has a fully funded reserve fund in the amount specified by the CRA and such reserve fund meets all conditions set forth by the CRA and is on deposit in an institution approved by the CRA.

In no event is the CRA allowed to guaranty or re-guaranty a loan or portfolio of loans greater than 50 % of the participant's exposure in such loan or portfolio of loans or in a monetary amount greater than _____. A participant's exposure is that amount of guaranty or re-guaranty that the participant has exposed itself in any given loan or portfolio of loans.

§ 23. Payment of Guaranty or Re-Guaranty on loans or Portfolio of loans

The CRA will pay the guaranty or re-guaranty share of the principal amount on a loan only when the loan becomes 60 or more days past due and upon written request of the participant providing that the participant has fulfilled all its obligations covered by the Law, Regulations, procedures and conditions set forth in the Guaranty Agreement.

Under no circumstances shall the liability of the CRA exceed the stated exposure in the Guaranty or Re-Guaranty Agreements.

§ 24. Reserve Accounts

All participants shall have established proper reserve for losses that reasonably reflect the potential losses that can be expected on their share of the loans that have been guaranteed or re-guaranteed. Such reserve accounts shall meet the satisfaction of the CRA as to type and amount and the controls that govern such accounts.

Specific reserve accounts are to be established to cover the individual or the portfolio of loans that the CRA has re-guaranteed and shall only be used for that purpose. The reserve accounts shall be held in such controlled accounts as approved by the CRA.

§ 25. Secondary Market

The CRA may, in its sole discretion, allow the CRA's guaranty or re-guaranty portion on an individual loan, or portfolio of loans to be transferred to a third party.