

Habitat Iowa Credit Risk Rating System Summary

In 2016, the HFH-IA Board and Loan Committee adapted a risk rating system created by the Minnesota SSO that would help to inform the Directors about the financial health of our borrowers and their related ability to repay our loan(s). The CRR System is used to assess an affiliate’s financial health, capacity and related risk of an HFH-IA loan.

The seven CRR criteria and what they are designed to measure are:

Criteria	Measurement
A The percentage of the number of mortgages that have been pledged to HFH-IA to the total number of performing mortgages in an affiliate’s portfolio minus any mortgages pledged to another lender	<ul style="list-style-type: none"> • Strength of Collateral • Compliance with HFH-IA requirement that the percentage as described in the criteria does not exceed 50%
B The percentage of outstanding dollar amount of loans made by HFH-IA to the total dollar amount of performing mortgages in an affiliate’s portfolio minus any mortgages pledged to another lender	<ul style="list-style-type: none"> • Strength of Collateral • Compliance with HFH-IA requirement that the percentage as described in the criteria does not exceed 50%
C Cash on hand as a percentage of an affiliate’s annual budget	Ability to repay planned expenses including repayment to HFH-IA
D The amount of accounts payable as a percentage of cash on hand	Ability to repay actual expenses including repayment to HFH-IA
E Other debt owed by an affiliate as a percentage of what the affiliate owes HFH-IA	<ul style="list-style-type: none"> • Strength of Collateral • Ability to repay HFH-IA as affected by requirements of other lenders. • Reason for “other debt” explored
F Overall percentage of the number of non-performing mortgages in an affiliate’s portfolio	Strength of Collateral
G Cash Flow Coverage = Total homeowner payments ability to repay HFH-IA loans and any other loans secured by pledged homeowner loans	Ability to repay all loans secured by collateral

The actual rating measurements are:

Ratings	=1	=2	=3	=4	=5
A	< 26%	26 - 49%	50 - 57.5%	57.6 - 60%	over 60%
B	< 26%	26 - 49%	50 - 57.5%	57.6 - 60%	over 60%
C	> 29%	16 - 29%	11 - 15%	5 - 10%	under 5%
D	< 10%	10 - 25%	26 - 35%	36 - 45%	over 45%
E	< 10%	10 - 20%	21 - 35%	36 - 50%	over 50%
F	< 4%	4 to 9%	10 to 14%	15 to 20%	over 20%
G	> 2.4	2.0 to 2.3	1.7 to 1.9	1.2 to 1.6	1.1 or less

Each affiliate is assigned a CRR at the time of loan approval and on a quarterly basis thereafter.

Compliance with HFH-IA underwriting guidelines and funding decisions:

If an affiliate has an overall average **CRR of “3”** or greater, additional allocations and/or disbursements will be made only with clear and written conditions stating the actions that must be taken, and the time in which the affiliate will be expected to meet those expectations to improve their CRR.

If an affiliate has a CRR of “4” or greater or is on the watch list for any other reason, no further allocations or disbursements will be made until the CRR improves. In that case, the affiliate **Board of Directors** will be required to prepare a written report to HFH-IA on actions or remedies to be taken to increase their CRR.

Technical Assistance to Affiliates:

The system is used as a starting point to analyzing the financial health of the Affiliate on a quarterly basis. Please feel free to contact Habitat Iowa staff with any questions regarding the CRR system or to inquire about your affiliate’s CRR.