



NorthBrook

NorthBrook Portfolio Grading Sample Report

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Overview of Report:

NorthBrook Lending Sector Advisors has prepared a grading report based on a sample equipment financing portfolio (the “Sample Portfolio”) that has been compiled internally solely for the purpose of illustrating the functionality and outputs of NorthBrook’s lending support platform, the N-Abler. This report is similar to what a client may expect to receive from NorthBrook and it has been written as if addressing that actual client. (hereinafter the “Client”). In conducting a review, NorthBrook staff would expect to attend the Client’s offices and conducted interviews with management and the principal staff of the selected loan product operations. The NorthBrook staff would also review Client’s records and business definitions to ensure (i) accurate mapping to the N-Abler system, and (ii) meaningful analytical results for the Client.

Output for each N-Abler grading tool (the key analytic of these reports) is two separate loan level grades; a credit grade, commenting on potential for default, and a collateral grade offering which is an indication of the support the underlying loan security can provide in the event of a default. In addition to a written report, the Client will receive a data extract containing the credit and collateral grades for each loan. This allows the Client to integrate our information into their own databases. A sample of the data extract has been set out in Appendix A.

By providing a data extract, the Client will be able to use the results for their own internal reporting, for their Board reporting and for their regulatory reporting. A discussion on how the loan level data can be used is laid out in Appendix B of this sample report.

For purposes of this report, the review (the “Review”) covers a number of areas of typical concern to a lender. Taking into account the lender’s operations, a representative report would be customized to the lender’s data and be directed, in part, by the scope of Client’s data and by the resulting credit and collateral grades.



For example, the sample data used for this report has equipment loans domiciled in 6 states. The report has used those states as the geographic divisions within the reporting. However depending on the Client's practices, the Review could be compressed to geographic regions (southeast, northwest etc) or expanded to city or branch level reporting.

Exposure to an industry is typically a material risk for most lending operations, and is an area highlighted in the Review. However where industry grouping is not a material issue for a client portfolio (e.g. single industry lending such as professional services lending restricted to the medical profession, or a portfolio of multi-family mortgages) other key risk elements will be identified and reported on.

When grading of each loan, the N-Abler system takes into account a number of economic and market factors in addition to borrower financial data. One of the more important market factors for equipment financing is the effort it takes to dispose of the underlying equipment. This has a material influence on the ability to realize on the security in the event of a default, and therefore has a major impact on the resulting collateral grade. The Review assesses the nature of the equipment disposal markets included in the sample data.

To summarize; for each review, each client's available information is assessed and key economic or market factors are identified. These factors will then become part of the report.

NorthBrook also provides direct commentary on the main results of each area reported. These commentaries are based strictly on the results of the N-Abler output. The Client's management and internal underwriting staff will have access to background information and context, that may not be included as part of the N-Abler assessment and the assigning of grades. Northbrook encourages the Client to use its review and recommendations as suggestions for further analysis of underwriting and operational policies and procedures.



The credit and collateral grades provided by NorthBrook's N-Abler platform are a concise compilation of complex information and as such provide a rich opportunity for analysis. The grades have a number of uses within the organizations, which can include performance measurements as well as a broad range of stakeholder reporting. Appendix B of this report sets out further detail as to how the client can make use of the information within their own organizations.



Scope of Review & Disclaimer

The following loan grading report has been prepared by NorthBrook Lending Sector Advisors Inc. (“NorthBrook”) for _____ (the “Client”) based on the terms and conditions of the Grading Assessment Agreement dated _____, 2011 between the two parties.

The scope of the Review is based on the information provide by the Client. The validity, accuracy and completeness of the client’s information have not been verified by NorthBrook or any other external third party, and are solely the responsibility of the Client. The opinions expressed are those of NorthBrook, and are based solely on the information provided by the Client, and from NorthBrook’s narrow scope of review. NorthBrook does not presume to have all of information available to it that is otherwise available to the Client. Any decisions made by the Client, based on all or in part on the opinions expressed in this report are solely the responsibility of the Client.

As per the Grading Assessment Agreement referenced above:

- The credit grades and collateral grades are the intellectual property of NorthBrook.
- NorthBrook retains all intellectual property rights in and to Output Data and the Services.
- All copyrights and other intellectual property rights existing prior to the Effective Date as defined in the Grading Assessment Agreement shall belong to the party that owned such rights immediately prior to the Effective Date.



- Neither party shall gain by virtue of this review any rights of ownership of copyrights, patents, trade secrets, trademarks or any other intellectual property rights owned by the other.
- NorthBrook shall own all copyrights, patents, trade secrets, trademarks and other intellectual property rights, title and interest in or pertaining to all works (including computer programs) developed by NorthBrook for purposes of this review.



Executive Summary of Conclusions:

The opinions and conclusions expressed in this report are solely based on the information provided by the Client, and specific to the portfolio reviewed. The client might draw other conclusions when reviewing these results in the context of their larger business operations, and considering other business trade-offs.

Please refer to the details in the report for the full context of these observations;

- For lower quality credits, the risks inherent in these exposures should typically be offset by higher collateral quality. Where the Review identifies loans with both Weak credit and collateral grades the loans should be reviewed in detail to determine if these are exceptions that can occur in any ongoing lending operations or if underwriting procedures can be improved related to those applicant conditions.

In our Sample Portfolio, 2.7% of the portfolio has been identified for review.

- Portfolios which are diverse across borrower industries can provide an overall benefit the lender in that they reduce concentration exposure. However each industry sector should be reviewed for the appropriateness compared to the Client's available in-house resources and expertise

In this Review, the Sample Portfolio carries a broad distribution of industry groups. Two groupings have been highlighted for further review; the Service sector and the Industrial sector, based on the % of the outstanding portfolio.



- Loan level grading has the ability to compare pricing to risk practices, a primary benefit when assessing the economic value of the risks embedded in the portfolio. This Review indicates there is a potential opportunity cost, where more interest revenue could be earned on the Moderate and Weak credits, in compensation for the additional credit risk being assumed.

In the Sample Portfolio, there appears to be no premium charged for poorer quality, and that the range of interest rates charged is consistent across all quality groupings.

- Similar to Industry sectors, geographic diversification can be a positive within a lender's portfolio. The Review can highlight geographic exposure trends that may require further review and possibly changes to underwriting practices for the identified risk areas.

In this Review, results indicated that all of the loan files where the borrower resides in Alabama should be reviewed by the internal audit team or by another credit manager.



Credit and Collateral Definitions

To put the analysis, recommendations and conclusions in perspective, this section sets out the grading scale for the credit and collateral grades, the intended indicator values of each, and how they should be interpreted.

At the core of every N-Abler service offering are the credit grading and collateral grading tools. The information extracted from the Client portfolio data is processed through the appropriate N-Abler loan grading tools; chosen based on the loan portfolio type the Client wishes assessed. Each loan in the portfolio is graded based on its specific attributes rather than on the overall compilation of attributes derived from the total portfolio. This is the main differentiator between the N-Abler grading and the approach taken when producing a single rating for an entire pool.

Each loan is assessed and graded against two conditions; a credit grade that provides an indication of the potential for delinquency and a collateral grade that provides an indication of the support provided by the underlying secured asset to the loan.

Both gradings generates results between 5.0 and 0.0 with 5.0 being optimum.

- A score of between 3.5 and 5 on the scale is considered Good-to-Strong
- A score of between 2 and 3 on the scale indicates a Moderate score
- A score of between 0 and 1.5 on the scale is considered a Weak score.

Additional information on the N-Abler grading system and its applications can be found in appendix B



Grading Results

While the Review reports on a number of key aspects of the portfolio, the primary results are the grades. No single element of the assessment provides a better overall view of the Client's portfolio and risk management capabilities than the grading section.

Chart 1:



NorthBrook Sample Data

Report Date: 3/2/2011
 Asset Class: Equipment
 Portfolio #

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Summary Tables Report

Data Summarized by Credit Grade Range

Credit Grade Range	Loan Count	%Count	\$ Amount Financed	% \$amount	Weighted average credit grade	Weighted average collateral grade	Weighted Average Debt/Equity Ratio	Weighted Average Loan-to-value
0 - 1.5	5	14%	126,475	13%	1.41	2.91	2.34	79.6%
1.51 - 2.50	11	31%	256,900	26%	2.31	2.63	3.30	89.7%
2.51 - 3.50	9	26%	367,935	37%	3.22	3.01	2.98	86.7%
3.51 - 4.00	6	17%	157,015	16%	4.00	3.29	2.73	91.7%
4.0 - 5.00	4	11%	91,590	9%	4.87	2.92	2.34	83.6%
Total	35	100%	999,915	100%	3.03	2.93	2.88	87.1%

Data Summarized by Collateral Range

Collateral Grade Range	Loan Count	%Count	\$ Amount Financed	% \$amount	Weighted average credit grade	Weighted average collateral grade	Weighted Average Debt/Equity Ratio	Weighted Average Loan-to-value
0 - 1.5	6	17%	156,325	16%	2.59	0.57	2.28	96.2%
1.51 - 2.50	6	17%	162,900	16%	3.24	2.37	2.40	98.3%
2.51 - 3.50	18	51%	534,845	53%	3.16	3.41	2.97	85.7%
3.51 - 4.00	2	6%	38,000	4%	2.45	4.00	3.59	56.6%
4.0 - 5.00	3	9%	107,845	11%	2.94	4.50	3.80	74.5%
Total	35	100%	999,915	100%	3.03	2.93	2.88	87.1%

Data Summarized by Borrower's Industry

Borrower's Industry	Loan Count	%Count	\$ Amount Financed	% \$amount	Weighted average credit grade	Weighted average collateral grade	Weighted Average Debt/Equity Ratio	Weighted Average Loan-to-value
Auto	4	11%	66,975	7%	2.37	2.16	3.05	91.3%
Consumer	3	9%	80,935	8%	2.81	1.45	2.01	89.5%
Federal, State or Provincia	2	6%	68,595	7%	5.00	2.47	1.92	93.6%
Financial	3	9%	33,885	3%	2.80	3.04	3.13	90.3%
Industrial	7	20%	377,500	38%	2.62	3.50	3.09	88.1%
Medical	2	6%	17,590	2%	3.69	2.81	3.12	96.2%
MUSH	3	9%	110,480	11%	4.00	3.26	3.26	96.1%
Service	11	31%	243,955	24%	2.92	2.74	2.87	76.6%
Total	35	100%	999,915	100%	3.03	2.93	2.88	87.1%

Referring to Chart 1, the overall risk within the Sample Portfolio is Moderate. On a weighted average basis the credit grade and collateral grade are 3.03 and 2.91 respectively.



Sixty three percent (63%) of the credit profiles fell within the Moderate range and 25% within the Good-to-Strong range. 66% of the collateral positions scored Moderate and 15% as Good-to-Strong. These results suggest the Client has sound underwriting capabilities within its organization. With the 54% of the loans being graded 2.5 or higher, the origination capabilities of the Client are particularly strong.

On a dollar basis 13% of the loans showed weakness from a credit prospective however 48% of those were, in part, mitigated by with Good-to-Strong collateral positions and 33% by Moderate collateral positions.

16% of the collateral positions were graded Weak, of which 7.7% were countered by Good-to-Strong graded credit profiles and 72.2% with Moderate credit profiles.

Only 2.7% of the overall Sample Portfolio are weak in terms of both credit and collateral positions. Although a relatively nominal size of the portfolio, the finding of Weak Credit – Weak Collateral scored loans should, as a rule, be reviewed in detail. For further information see Summary of Recommendations section of this report.

When reviewing the scoring results, one area that causes concern is the low weighted average collateral score of 0.57, shown in Table 2 for the Weak collateral group. With the weighted average collateral score of 2.93 for the entire portfolio, the result of 0.57 is an anomaly within the overall results. We recommend the details of the security for all loans with collateral grades of less than 1.5 be reviewed. The quality of the collateral should be reviewed to determine if asset value is deteriorating, and if there are any market trends that need to be monitored.

Notwithstanding limited weakness in collateral, the equipment financing business unit appears to be a strong contributor to the Client. Subject to other strategic considerations the Client has, the Client may wish to consider expanding this group.



Geographic Profile

It is important to review the location of the lending activity. For the Sample Portfolio, the results of loans from various states were compared. Referring to the Charts below, this section of the report highlights the geographic exposures found in the underlying portfolio. The Chart 2 series provides the details by the number of loans in each category. The Chart 3 series provides the information by the \$ dollar amount of the loans outstanding.

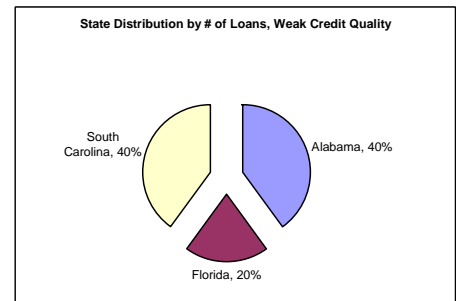
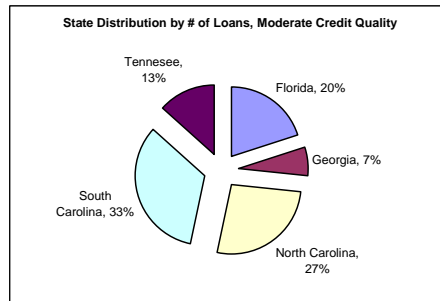
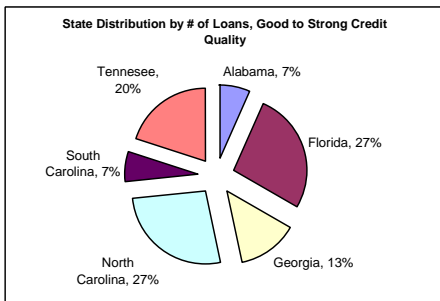
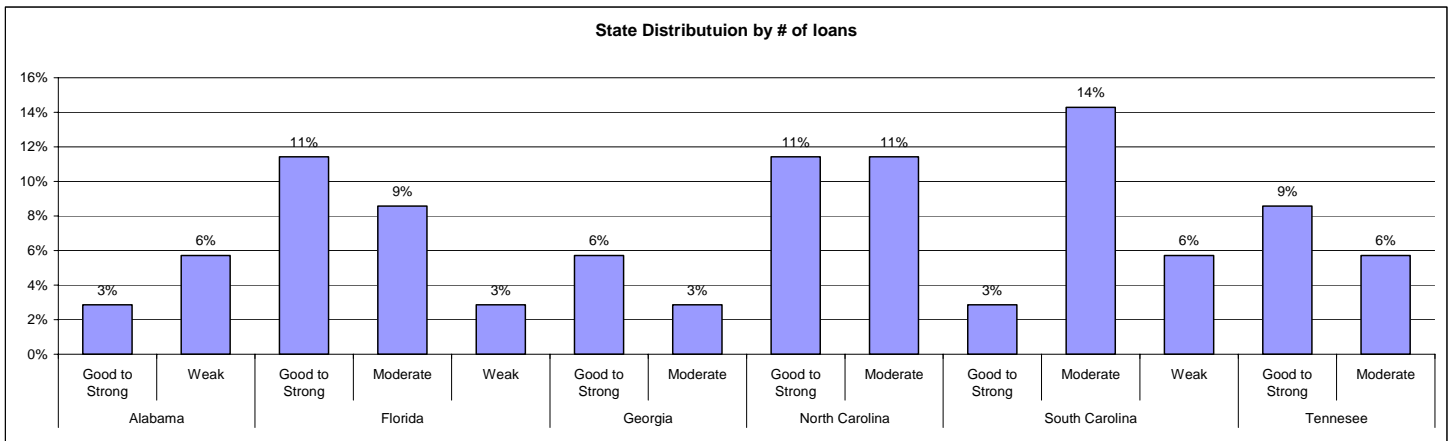
Chart 2 series:



NorthBrook Sample Data

Report Date: 3/2/2011
Asset Class: Equipment
Portfolio #: 27

STATE DISTRIBUTION REPORTS





The Client originates equipment financing business in 6 states –Alabama, Florida, Georgia, North Carolina, South Carolina and Tennessee.

The Review results show that, based on both on total number of loan and outstanding principal balances, South Carolina is currently the Client’s strongest market. 28% of all loans are domiciled in that state with 26% scoring Moderate or Good-to-Strong. Florida, North Carolina and Tennessee show roughly equal originations at 18%, 17% and 17% respectively. Georgia shows a respectable 10%.

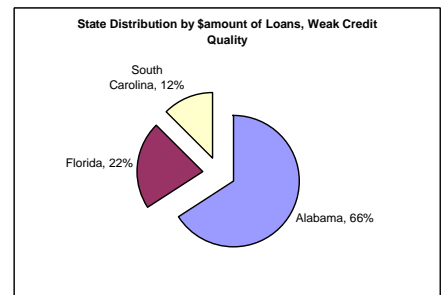
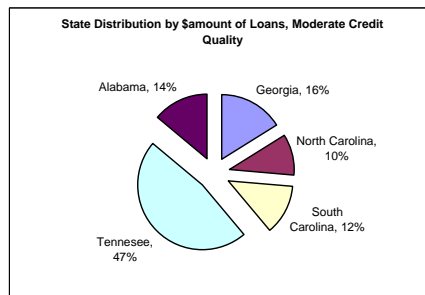
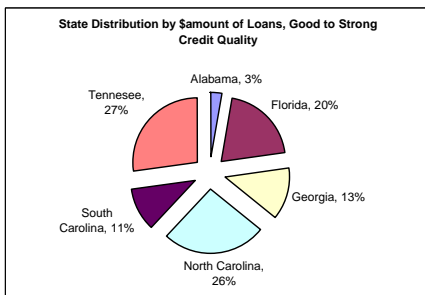
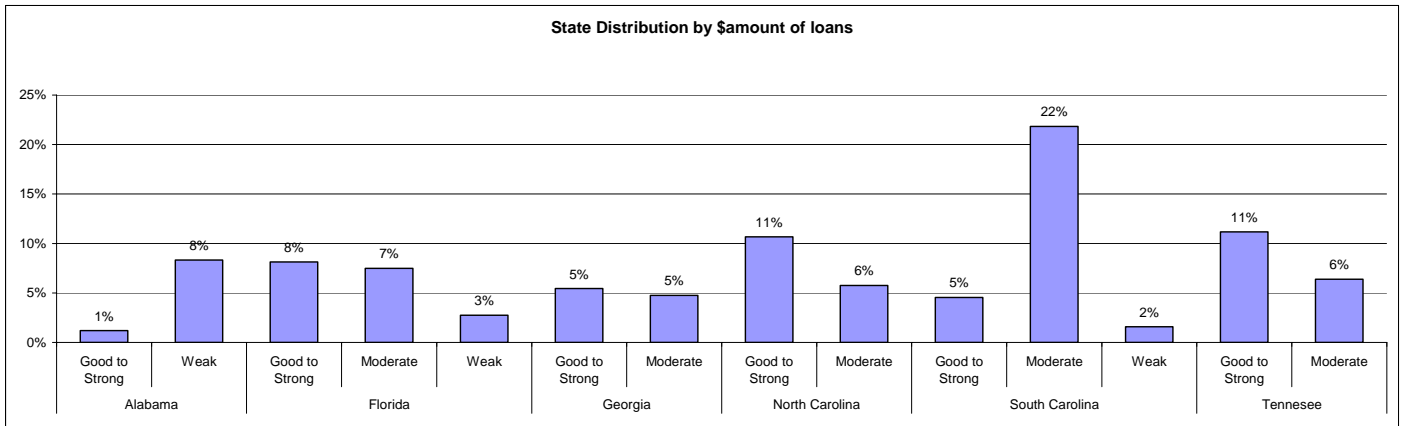
Chart 3 series:

NorthBrook Sample Data

Report Date:

3/2/2011

STATE DISTRIBUTION REPORTS cont'd





These results speak to the strength of the Client's originations capabilities identified in the previous report section. The diversification demonstrated by these results can be considered a material risk mitigant for the portfolio and the Client overall.

The one region that requires further investigation is Alabama. Alabama represents 9% of the portfolio but 66% of the Alabama loans by dollar amount are categorized as Weak. 87% of the loans (by number of loans) in Alabama are Weak credits which suggest problems in originations and/or underwriting that needs to be addressed. Should this poor performance be indicative of ongoing systemic issues, the Client should consider taking steps to exit the Alabama market.



Industry Exposures

The charts in this section offer an assessment of the loans by industry groupings segregated by grading results.

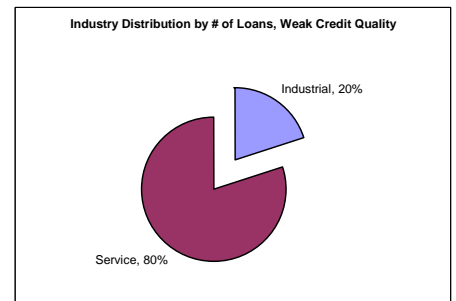
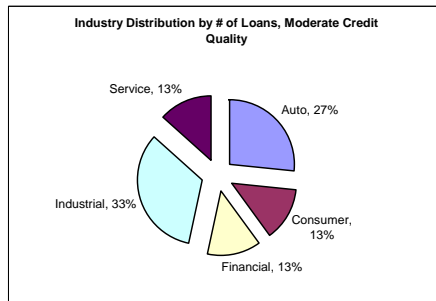
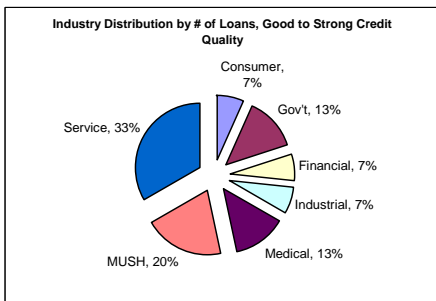
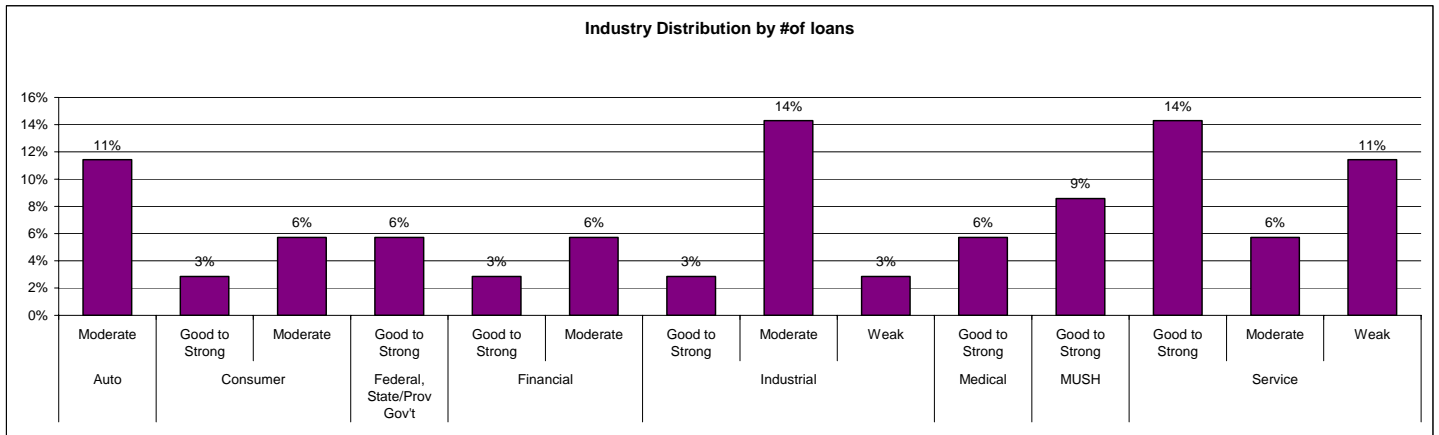
Chart 4 series:



NorthBrook Sample Data

Report Date: 3/2/2011
Asset Class: Equipment
Portfolio #: 27

INDUSTRY DISTRIBUTION REPORT



In reviewing the sample data based on number of loans, there appears to be a good mix of credit risk levels within each Industry. Two areas that would bear further inspection would be the Auto and Service Industries. The



results for the Auto industry indicate that either the product offering attracts no Good-to-Strong credits or that customers with these credit profiles haven't been targeted. The results for the Service industry indicate that either Weak credit is being granted or that credit is deteriorating. These indications warrant further investigation for both the Auto and Service Industries.

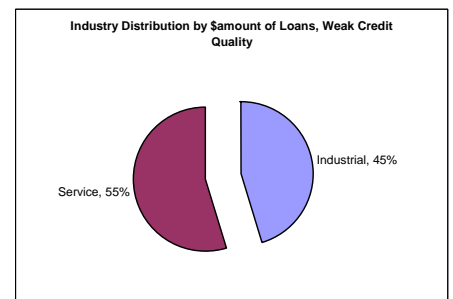
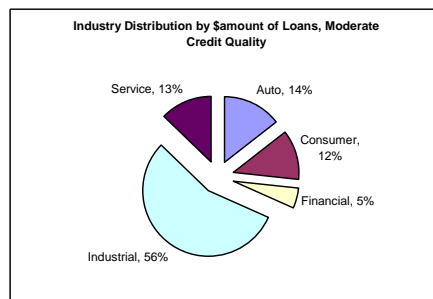
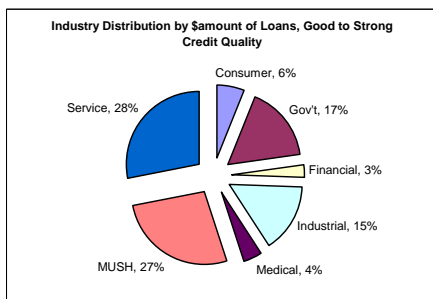
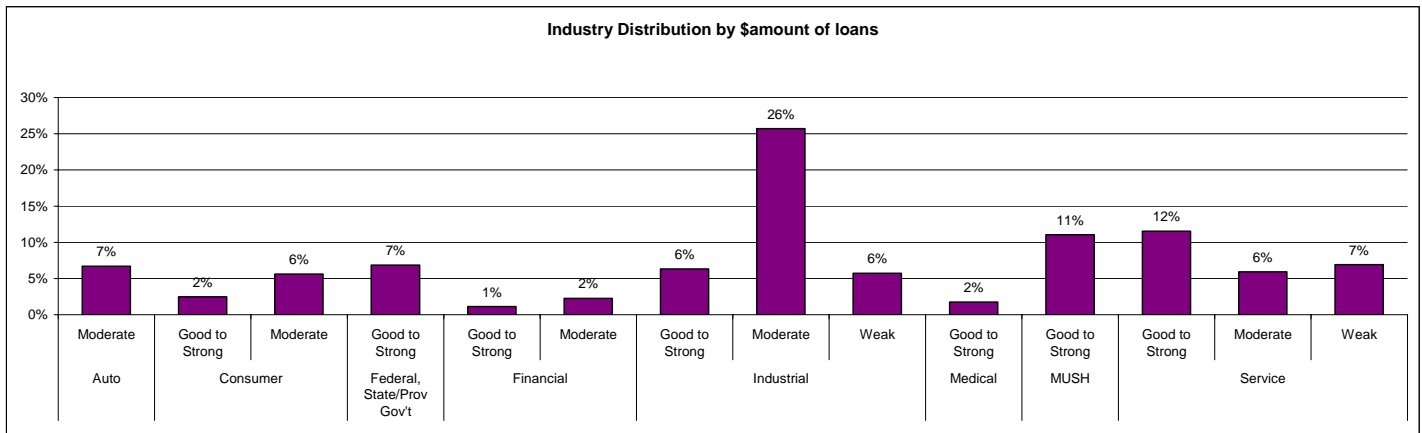
Chart 5 Series:

NorthBrook Sample Data

Report Date:

3/2/2011

INDUSTRY DISTRIBUTION REPORT cont'd



When reviewing the Industry credit profiles by dollar amount of outstanding financing, the same conclusions that were drawn under the Chart 4 series of graphs can be drawn here. Further observations can be made however. On a dollar basis, the Service industry only accounts to 55% of the Weak credits as compare to 80% on a loan count basis. This means that the credit risk



exposure is lower than implied by the number of loans, and the focus of the review should be on the reasons for the volume of Weak credits. Combining this information with the composite metrics in Chart 1, management should review the appropriateness of the Service sector concentration.

Based on dollar amount, at 38% of the portfolio, the Industrial sector is the largest industry group, and is 45% of the Weak credit. This implies a higher exposure, as the risk of loss is greater the larger the loan amount. Management should review this area to ensure the results are consistent with the expectations implied in the underwriting criteria.



Equipment Disposal Exposure:

The ability to realize the value of the collateral when a borrower has defaulted on their loan, is a key element in determining the quality of the loan. Understanding the secondary market for the security asset determines the liquidity of the asset. Each equipment finance loan assessed through the N-Abler has an element of its grading assigned to a “disposal factor”. It is based on the type of disposal markets the equipment being financed, can be sold through:

- public
- strong secondary but private resale (“private established”)
- private liquidation only
- none



lorthBrook Sample Data

Report Date: 3/2/2011
Asset Class: Equipment
Portfolio #: 27

Disposal Markets Exposure

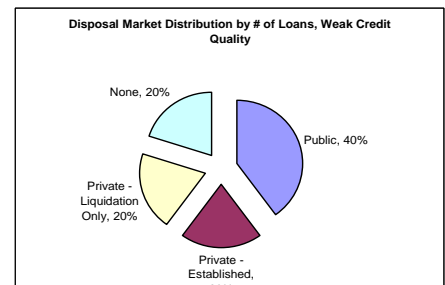
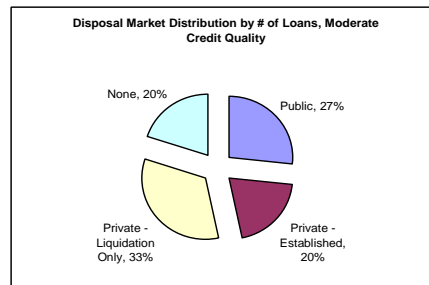
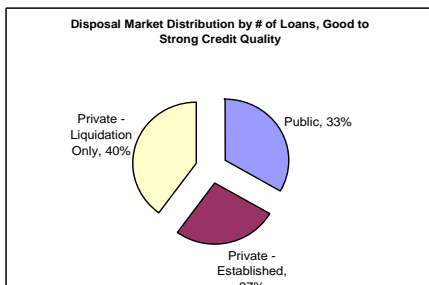
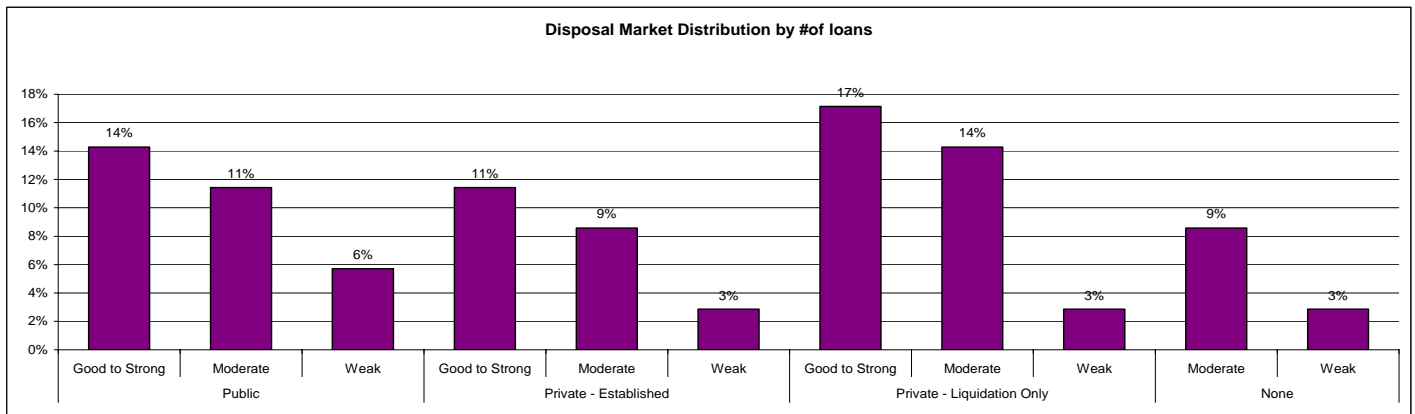




Chart 6 illustrates the results of the analysis, stated in the number of loans, distributed across the credit grade groupings. It shows that only 11% of the collateral assets do not have at least some form of existing disposal market. 34% of the assets could be sold in the private markets on a liquidation basis. Those assets in the private liquidation only market grouping could require the Client to have to discount the assets value in order to dispose of the asset, and realize funds to cover the loan. Off setting this risk, is the quality of the credit on the loan. 87.5% of the number of loans with either no or liquidation only markets available, have moderate or good-to-strong credit. These loans represent only 6% of the overall portfolio.

Chart 7 illustrates the results of the analysis, stated in the number of loans, distributed across the credit grade groupings.

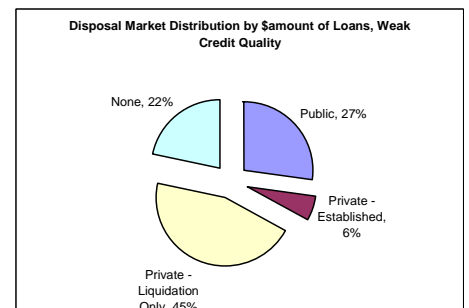
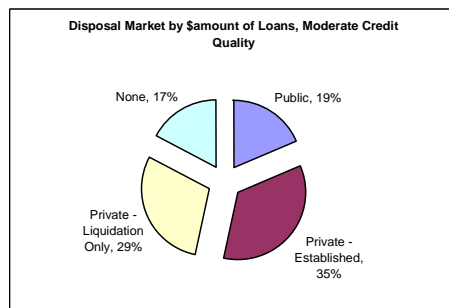
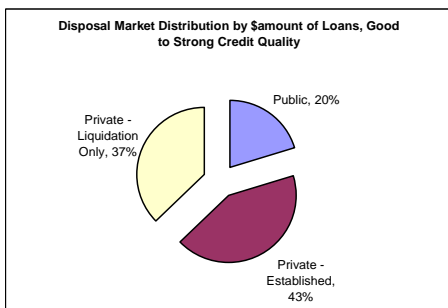
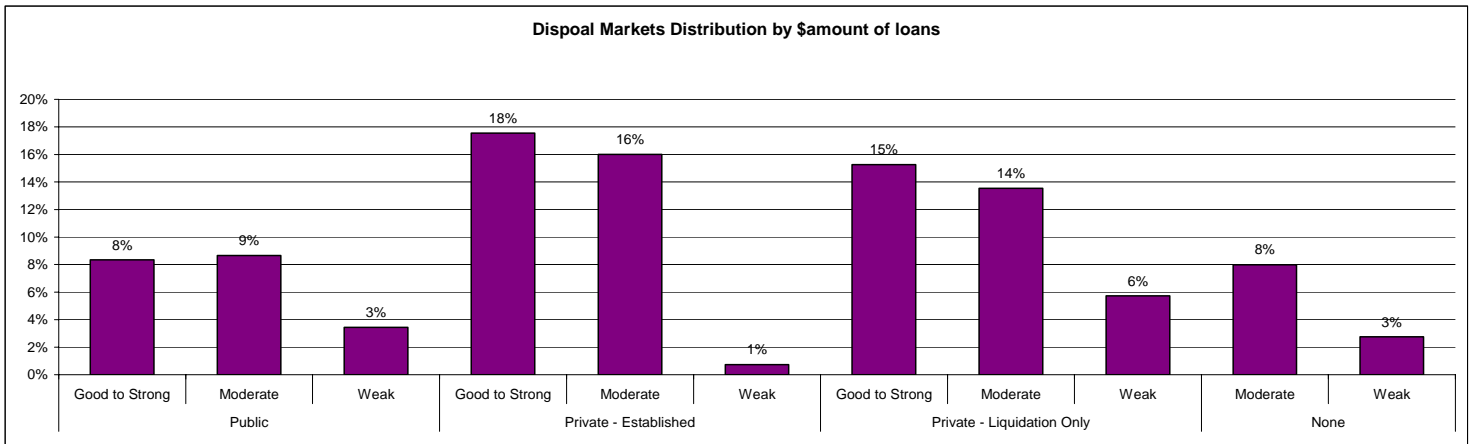
Chart 7:

NorthBrook Sample Data

Report Date:

3/2/2011

Disposal Markets Exposure cont'd





Reviewing the results based on the dollar amount of the portfolio, the percentage of the portfolio with either no or only liquidation markets available is represent 45% of the overall portfolio. 20% of these loans, and 9% of the overall portfolio have weak credit.

Another point to note, the largest number of loans outstanding is in the public market, but the largest dollar amount of loans outstanding is in the established private markets.



Large Exposures:

Depending on the size and nature of the portfolio, the number of large loans reported will vary. For the Sample Portfolio, the largest 4 loans were selected.

As part of the Review, the report sets out the details of the large individual loan exposures. Chart 8 lists the loans that meet the selection criteria.

Chart 8:



NorthBrook Sample Data

Report Date: 3/2/2011
Asset Class: Equipment
Portfolio #: 27

Large Loan Exposures

Transaction Identifier	Industry	Principle Balance	Credit Profile Description	Collateral Profile Description	# of times larger than avg loan	% of the \$ Portfolio
10092	Industrial	\$ 95,950	Moderate	Moderate	3.36 times	9.6%
9438	MUSH	\$ 76,450	Good to Strong	Good to Strong	2.68 times	7.6%
10105	Industrial	\$ 63,250	Good to Strong	Good to Strong	2.21 times	6.3%
9114	Financial	\$ 57,200	Moderate	Moderate	2 times	5.7%

Average loan size in the portfolio \$ 28,569
Total portfolio size \$ 999,915

Each of the large loan exposures have sound credit and collateral quality. The absolute dollar size for loans in the Industrial industry is not unreasonable, and \$dollar size of loans to MUSH borrower's in with industry norms.

Each loan is at least 2 times the size of the average loan, and represents more than 5% of the portfolio. As a normal practice these loans should be reviewed to ensure consistency with underwriting polices, and expected results.



Pricing:

The interest rate charged on a loan cannot be a substitute for well designed underwriting criteria. However, it can price the “scarce resource” of funds for the risk that is being assumed. All else being equal, the interest rate on the loan that has more credit risk should have a higher interest rate. Chart 5 highlights the credit quality and the interest rate premiums achieved by this portfolio.

Chart 5:



NorthBrook Sample Data

Report Date: 3/2/2011
 Asset Class: Equipment
 Portfolio #: 27

Portfolio Interest Rate Report

By credit and collateral profile

Description	Total Loan \$	Total Loan %	WA rate %	Rate Premium for Credit Quality %	Highest Rate	Lowest Rate	Rate Spread per category	Rate Premium for Collateral Quality %
Good to Strong Credit, Good to Strong Collateral	312,310	31.23%	8.28		9.00	7.00	2.00	-
Good to Strong Credit, Moderate Collateral	86,185	8.62%	7.28		9.00	7.00	2.00	(1.00)
Good to Strong Credit, Weak Collateral	13,025	1.30%	7.00		7.00	7.00	-	(1.28)
	411,520	41.16%	8.03		9.00	7.00	2.00	
Moderate Credit, Good to Strong Collateral	186,430	18.64%	7.94		9.00	7.00	2.00	-
Moderate Credit, Moderate Collateral	159,690	15.97%	7.78		9.00	7.00	2.00	(0.17)
Moderate Credit, Weak Collateral	115,800	11.58%	8.31		9.00	7.00	2.00	0.37
	461,920	46.20%	7.98	(0.05)	9.00	7.00	2.00	
Weak Credit, Good to Strong Collateral	83,200	8.32%	8.69		9.00	8.00	1.00	-
Weak Credit, Moderate Collateral	15,775	1.58%	7.47		8.00	7.00	1.00	(1.22)
Weak Credit, Weak Collateral	27,500	2.75%	8.00		8.00	8.00	-	(0.69)
	126,475	12.65%	8.39	0.36	9.00	8.00	1.00	
	999,915	100%	8.05	(0.23)	9.00	7.00	2.00	

By Static Pool

Credit Descriptn	Origination period	Total Mtg \$	Total Mtg %	WA rate %	Highest Rate	Lowest Rate	Rate Spread per category	Change in Rate spread over time
Good to Strong	2010	350,370	35.04%	8.04	9.00	7.00	2.00	(0.11)
	2011	61,150	6.12%	7.94	9.00	7.00	2.00	
	Sub-total	411,520	41.16%	8.03	9.00	7.00	2.00	
Moderate	2010	439,380	43.94%	7.97	9.00	7.00	2.00	0.28
	2011	22,540	2.25%	8.24	9.00	7.00	2.00	
	Sub-total	461,920	46.20%	7.98	9.00	7.00	2.00	-
Weak	2010	126,475	12.65%	8.39	9.00	7.00	2.00	N/A
	2011	-	0.00%	-	-	-	-	
	Sub-total	126,475	12.65%	8.39	9.00	7.00	2.00	
Total		999,915	100.00%	8.05	9.00	7.00	2.00	



There are two tables. The first table summarizes the information by credit and collateral quality. The second table is by credit quality and origination period.

In referring to the first table, one would expect that the loans with both Good-to-Strong credit quality and Good-to-Strong collateral quality to have the lowest interest rates. Conversely, the expectation would be those loans with both Weak credit and Weak collateral to have the highest interest rates.

As can be seen from the first table, there appears to be no premium charged for poorer quality. The range of interest rates charged is consistent across all quality groupings. This would imply that the Client is pricing by product and is not factoring in the quality of the Borrower or resulting loan. There is potentially an opportunity here, where the Client could earn more on the Moderate and Weak credits, in compensation for the additional risk assumed.

Since this is a review of a portfolio, it is important to compare the results based on when the loans were originated. In this case, as the sample data is small so the results were grouped by the year of origination. The table shows that in 2010 Good-to-Strong credit were priced equivalently to the Moderate credits, while Weak credits were charged a 39bps premium. In 2011, Moderate credits were earning the Client an additional 30bps over Good-to-Strong credits. However, within the Good-to-Strong credits, rates had decreased, while the spread of the highest to lowest rates remained constant. Also note that as of the date of the report, there had been no 2011 originations in the Weak credit group.



Summary of Recommendations:

The following is a summary of all areas highlighted by the report for additional review.

- i) Loans with Weak credit and Weak collateral
 - 9587
- ii) Collateral grading of less than 1.5
 - 9587
 - 9786
 - 10021
 - 10055
 - 10077
- iii) Review Alabama originations and underwriting and determine if you should stay in this geographic market
- iv) Review and/or establish Industry sector mix.
- v) Review and/or establish guidelines and limits for collateral with no or only liquidation disposal markets available
- vi) Large loan exposures should be reviewed to ensure consistency with underwriting expectations.
- vii) The Client should develop processes to review and establish price premiums for Moderate and Weak loans.

When reviewing the results of the much larger portfolio, the similar principles will apply. All Weak credit – Weak collateral files should be reviewed by and experienced credit manager. The credit manager should be looking for trends, themes and areas of concern. The output from this type of review can assist management in the refining of credit granting policies, or correct problem areas of the operations.



Appendix A: Sample of Data Extract



N-Brook
Mortgage Group

Report Date:
Asset Class
Portfolio #

3/2/2011
Equipment
27

Data Extract Report

Transaction Identifier	Credit Risk Grade	Collateral Grade	Credit Profile Description	Collateral Profile Description
8776	4.00	3.50	Good to Strong	Good to Strong
8997	2.00	3.50	Moderate	Good to Strong
9114	2.50	2.50	Moderate	Moderate
9147	1.50	3.50	Weak	Good to Strong
9165	3.50	3.50	Good to Strong	Good to Strong
9274	4.50	4.50	Good to Strong	Good to Strong
9364	2.00	3.00	Moderate	Moderate
9438	4.00	3.50	Good to Strong	Good to Strong
9462	3.00	4.50	Moderate	Good to Strong
9554	3.50	3.50	Good to Strong	Good to Strong
9587	1.50	1.00	Weak	Weak
9647	4.00	1.50	Good to Strong	Weak
9751	2.50	3.50	Moderate	Good to Strong
9782	2.00	3.50	Moderate	Good to Strong
9786	2.50	1.00	Moderate	Weak
9855	2.50	4.50	Moderate	Good to Strong
10014	0.50	2.00	Weak	Moderate
10019	1.00	2.50	Weak	Moderate
10021	3.00	0.50	Moderate	Weak
10022	3.50	3.50	Good to Strong	Good to Strong
10028	2.00	3.00	Moderate	Moderate
10037	4.00	3.50	Good to Strong	Good to Strong
10046	3.50	3.00	Good to Strong	Moderate
10051	3.00	3.50	Moderate	Good to Strong
10055	2.50	0.50	Moderate	Weak
10062	1.50	4.00	Weak	Good to Strong
10069	5.00	2.00	Good to Strong	Moderate
10076	4.50	4.00	Good to Strong	Good to Strong
10077	2.50	0.00	Moderate	Weak
10082	5.00	3.00	Good to Strong	Moderate
10087	4.00	2.50	Good to Strong	Moderate
10092	3.00	2.50	Moderate	Moderate
10099	2.50	3.00	Moderate	Moderate
10103	4.00	3.50	Good to Strong	Good to Strong
10105	3.50	3.50	Good to Strong	Good to Strong



Appendix B

LOAN LEVEL RISK GRADING

The N-Abler Platforms bring a compelling innovative solution to the industry; its independent loan grading. Rather than provide overall pool ratings that often speak little to what is in the pool, the N-Abler grades each individual asset within the pool. This brings a level of transparency and reporting analysis to a portfolio clearly desired by stakeholders, regulators and auditors.

Internally the individual loan gradings can be utilized for a wide range of risk management functions. With the loan level credit risk information senior management can implement more targeted revenue strategies to better price out the potential risk within individual loans. The Grades can also be used to provide metrics with understandable comparative views for external board members, assisting them in governing their institution.

Understanding the credit scoring model

At the core of every N-Abler service offering are the credit grading and collateral grading tools. The N-Abler extends enhanced risk management tools to the F/I with credit grading, monitoring and risk management reporting at the individual loan level. Each loan in the portfolio is assigned a grading based on its value of an individual asset rather than a single rating assigned to the entire pool.

The N-Abler also provides separate grade indicator which assess the value of the underlying asset that is security for the loan – the collateral grade. Very distinct from just an asset appraisal value, the grading process can distinguish the value between two equipment financings with the same current market value. The N-Abler will assign a higher grading to one asset over the other where there is a higher likelihood the client can recover the full value of its loan in a timelier manner.



The resulting grades are independent from how credit was originally granted and provide third party assessment of the credit and collateral quality. As the client will receive the individual credit and collateral grades for equipment loan, the Client can use the resulting report and data extract as support (i) for its own portfolio management decision processes, and (ii) for discussions with their regulators on their portfolios' risk profile when assessing capital adequacy.

Credit Grading

The Credit Scoring model that produces the credit grade is based on at least 25 points of data on each loan and translates the imbedded credit risk in the loan into a score on a 5 point scale. The credit grade is a numerical representation of quality of a borrower's credit and the likelihood of delinquency. There is a score for each individual loan, which allows the credit risk of a portfolio, or series of asset classes to be ranked. The higher the score, the better the quality of the borrower's credit.

A score of between 3.5 and 5 on the scale indicates the customer has good-to-strong credit, and should have a wide range of options available to them to secure a loan from many different lenders.

A score of between 2 and 3 on the scale indicates the customer has moderately strong credit. The credit information shows weakness in some areas of concern. This may limit their choice of lenders to deal with.

A score of between 0 and 1.5 on the scale indicates the customer has weak credit. This indicates a material weakness in the application that could result in a failure to find financing.

A score of R on the scale indicates the customer has unacceptable credit. One or more of the four primary application factors (TDSR, GDSR, LTV, Credit Score) has fallen outside currently accepted parameters.

The data fields used in the algorithms to determine the score are specific to the asset class; however, the resulting score is not. For example, the credit risk of a consumer loan with a grade of 4 provides the same credit risk exposure and probabilities as a mortgage with the same grade, although the



absolute amounts of the loans are different. This allows the Client to assess the risk inherent in a portfolio and across asset classes.

Collateral Grading

The Collateral Grade is also a 5 point scale that assesses the likelihood the amount lent can be realized on the sale of the underlying collateral. This grade scale reflects such characteristics as the marketability of the asset, ability of the asset to retain value, and the use of the underlying asset. For example, a piece of equipment is used to generate income would have a higher collateral grade, all else being equal when compared to equipment that is non-essential to revenue generation.

Similar to the Credit Grade, the higher the collateral grade the higher the expectation the lender could recover loan amount from the sale of the asset. The data fields used in the algorithms to score are specific to the collateral class.

Purpose and Use of the Credit scoring model

A vast amount of information is used in the credit granting process. It is often daunting to analyze and put into the context of the overall business. A credit grade is a compilation of all the information used to determine the credit decision, in one concise number. This grade along with other information such as branch, loan officer, rates, etc can be used to help management understand the relative amount of credit risk being assumed, along with where and how it is being assumed. It also allows for the effective communication to all levels of the organization of the measure of credit risk exposure the organization has assumed.

As the credit and collateral grades are independent of the lending institution, the grades allow for the comparison of results, metrics of the organization to the grades. There is no one right answer when assessing credit as long as the risk is understood, any material variation can be investigated, reviewed and updated. A Client may use the credit scoring model for many purposes including:



- Assessing pricing strategy in the context of the level of credit or collateral risk taken
- Assessing the on-going mix of credit risk within give portfolios or across the balance sheet
- If the data is collected, the underwriting quality of individual loan officers, branches, locations, to help management set objectives, and conduct performance reviews and employee feedback
- Assessing estimates of realization values of delinquent loans based on their collateral grades
- Assessing Fair Value accounting estimates as it relates to the credit quality and realization values
- Assessment of underwriting standards – is the lending institution getting the credit quality it expects from its guidelines.
- Assessing the credit profile of portfolio for purchase at the individual loan level.
- Providing the Board with independent 3rd party credit assessment
- Allocating internal loan collection resources.