

## **Summary of CEO Monitoring Report for 4th Quarter 2023**

CU is in compliance with all policies monitored this quarter. Please Note: The 401K Retirement Plan policy was monitored by the chair of the 401K Trustees, Tommy Ricks and reviewed by the CEO while the Lending Policy was monitored by the Director of Lending, Bryn Bagwell and reviewed by the CEO.

# 401(k) RETIREMENT PLAN POLICY

POLICY NUMBER: 01-013

POLICY TYPE: Executive Limitations

The Chief Executive Officer shall ensure that the organization's primary retirement program created for the benefit of its employees, known as the "Communities Unlimited, Inc. Employees Savings Trust or 401(k) Plan" (the Plan) assets are adequately protected, and maintained, and not unnecessarily placed at risk. The Chief Executive Officer is free to choose any appropriate organizational means for maintaining compliance with this policy, subject to the following limitations.

The Chief Executive Officer may not:

1. Fail to insure against theft and casualty losses or allow unbonded personnel access to material amounts of funds.

*Interpretation:* No employee will have direct access to retirement funds that are not their own. All employees handling payroll functions are bonded.

*Response:* **Compliant**

*Discussion:* Once deducted from payroll check, funds are transferred directly to third party provider who invests money per the instructions provided by the employee. All employees at CU are bonded.

2. Unnecessarily expose the organization, its board, or staff to claims of liability.

*Interpretation:* Protect the best interest of all employees in a fair and equitable manner that is compliant with all laws.

*Response:* **Compliant**

*Discussion:* I am not aware of any situation that could lead to a claim of liability or a lawsuit against the organization.

3. Fail to process and post Plan payments on a timely basis or disburse funds under controls that are insufficient to meet the board-appointed auditor's standards.

*Interpretation:* All funds are disbursed to employee 401K accounts in accordance with employee's written instructions. Funds are disbursed within 15 days of the prior payroll.

*Response:* **Compliant**

*Discussion:* Payroll company ADP provides report on 401K deductions and CU contributions to individuals' 401K accounts on the 26<sup>th</sup> and 11<sup>th</sup> of each month. CFO send the report to our 3<sup>rd</sup> party administrator the Principal who drafts the funds directly out of our bank account and into employee 401K accounts in accordance with employee instructions. If the Principal has not received the report within 5 days of the end of a payroll period, they contact the CFO.

4. Establish or change pension benefits so as to cause unpredictable or inequitable situations, including those that:
  - a. Incur unfunded liabilities.

*Interpretation:* Payroll deductions for the 401K plan are deposited into employee 401K accounts within 15 days of the end of a payroll period.

*Response:* **Compliant**

*Discussion:* CFO sends the report outlining 401K deductions and CU contribution provided by ADP to our 3<sup>rd</sup> party administrator THE PRINCIPAL who drafts the funds directly out of our bank account and into employee 401K accounts in accordance with employee instructions. If THE PRINCIPAL has not received the report within 5 days of the end of a payroll period, they contact the CFO.

- b. Provide less than some basic level of benefits to all employees, though differential benefits to encourage longevity are not prohibited.

*Interpretation:* Percentages of payroll used to calculate matching funds and direct contributions are the same for every employee. Actual amounts vary depending on the salary levels of individuals.

*Response:* **Compliant**

*Discussion:* Effective 1/1/18, CU provides a 3% of salary direct contribution to each eligible full-time employee's 401K account. Additionally, CU provides a 3% of salary match if the employee chooses to contribute at least 3%. On 10/25/21, a vote was passed by 401K Trustees seeking board approval to increase CU non-elective salary match from 3% of salary to 5% of salary IF the employee chooses to contribute at least 5%.

- c. Causes a reduction in an employee's accrued investments (other than those caused by stock and bond market fluctuations)

*Interpretation:* No actions can be taken by the organization to diminish the amount that an employee has accrued in his/her 401K account.

*Response:* **Compliant**

*Discussion:* 401K accounts are solely under the control of each employee. The organization cannot access the accounts in any way. Market fluctuations outside of the control of the organization can, however, impact the value of an employee's 401K account.

- d. Treat the Chief Executive Officer differently from other key employees.

*Interpretation:* Contributions to the CEO's 401K account are made in accordance with the percentages set by the organization that apply to all employees equally.

*Response:* **Compliant**

*Discussion:* I do participate in the 401K plan that CU provides at the same level available to any other CU employee.

- 5. Use methods of collecting, reviewing, transmitting, or storing Plan information that fail to protect against improper access to restricted and/or confidential materials.

*Interpretation:* All plan information is managed by a third party.

*Response:* **Compliant**

*Discussion:* With approval of the Board of Directors, in January 2020 CU moved from *CUNA Mutual Retirement Solutions (CUNA)*, formerly *CPI*, to THE PRINCIPAL as its third party administrator to manage all plan information.

- 6. Fail to report annually to the Board on the status of the Plan including disclosure of material changes or significant issues related to its operation.

*Interpretation:* The chair of the 401K Trustees will report to the board during the 3<sup>rd</sup> Quarter meeting of the board.

*Response:* **Compliant**

*Discussion:* Tommy Ricks made report to the Board on 10/11/2023. The board reviewed 3 recommendations made by the 401K Trustees to: 1) Add 9 Index Funds, 2) Reinstate withdrawal option before age 59.5 years and 3) allow the Chair of Trustee Committee to be a member of the

Senior Leadership Team or the Operations Leadership Team. The board acted on these recommendations and approved them.

In 2022, the board reviewed a recommendation made by the 401K Trustees to change the vesting schedule for employees. The board acted on this recommendation and approved it with the understanding that it would not impact new employees who had been with the organization less than 5 years. Ricks announced that the implementation of the approved vesting policy would go into effect before 1/31/2023 and only those employees hired after that date would not be considered fully vested until they complete their 5 years of continuous employment with CU.

7. Fail to provide appropriate educational opportunities and access to retirement planning information for Plan participants.

*Interpretation:* The organization will provide written materials about retirement planning as well as direct contact information for the financial advisor provided by the third party administrator. No employee nor a trustee will provide investment advice. They will, however, encourage employees to participate.

*Response:* **Compliant**

*Discussion:* 401K Trustees discuss educational opportunities during their regular meetings. Over the last year, Wells Fargo Advisors have been making targeted calls to CU staff especially those approaching age 70 to discuss retirement planning next steps. Wells Fargo Advisors participated in CU's in-person staff meeting held on Nov 7 - 10, 2022 in Oklahoma City, OK to share that the plan is performing well even given the current economic environment.

8. Fail to operate without an Investment Policy Statement.

*Interpretation:* There shall be a written, current Investment Policy Statement approved by the board on file at all times.

*Response:* **Compliant**

*Discussion:* When I came on board in October 2014, I was informed that there was no IPS in place at CRG. On October 5, 2016 an IPS was approved by the Trustees and approved by the CU Board on October 14, 2016.

9. Disband the 401K Board of Trustees

*Interpretation:* The CEO nor the board will disband the 401K Board of Trustees.

*Response:* **Compliant**

*Discussion:* The 401K Board of Trustees is in place and active.

10. Fail to inform the board at its next quarterly meeting of a change in third party plan administrator.

*Interpretation:* The CEO will inform the board if there has been a change in third party plan administrators during the next board meeting following the change.

*Response:* **Compliant**

*Discussion:* THE PRINCIPAL continues to be our third party plan administrator after the 401K Trustees completed their 3-year plan comparison to ensure competitive services and costs at a meeting conducted on April 11, 2023.

# LENDING POLICY

POLICY NUMBER: 01-011

POLICY TYPE: EXECUTIVE LIMITATIONS

With respect to the management of the loan portfolios and lending activities, the Chief Executive Officer shall ensure that all conditions, procedures, and decisions are ethical, appropriate, fair, and do not unduly risk loan capital.

Except as limited below, the Chief Executive Officer is free to choose any appropriate organizational means for achieving and maintaining compliance with this policy.

The Chief Executive Officer shall not:

1. Engage in lending activities that do not further the organizational goals of addressing the needs of low-income and disadvantaged people or that fail to fill financing gaps that are outside the traditional banking system.

***Interpretation:*** All CU lending activities are focused on serving low-income and disadvantaged families and communities through our consumer, small business and infrastructure financing.

***Response:*** COMPLIANCE.

***Discussion:*** All of our lending activity has worked to further the organizational goals of addressing the needs of low-income and disadvantaged people and/or has filled gaps that are outside the traditional banking system. In FY23, 27% of small business loans made and 35% of loans made to water and wastewater systems were in persistent poverty counties.

Through September 2023, CU has closed 244 small business loans with 78% of those to Black owned businesses, 10% to Hispanic owned businesses and 82% to women owned business.

2. Allow the loan portfolio to substantially deviate from typical performance measurements of similar lending organizations or fail to consider “best practices” for Community Development Financial Institutions (CDFIs).

***Interpretation:*** CU works to set a high standard for ethical and responsible lending while achieving its mission, consistent with the best practices in the community lending industry. As a result, our goal is to provide access to fair and appropriate loan products for families, businesses and communities in rural and under-resourced communities and neighborhoods.

***Response:*** COMPLIANCE.

***Discussion:*** CU is an active member of Opportunity Finance Network (OFN), a network of CDFIs and partners. Through OFN CU has access to industry information including the “Opportunity Financing Institutions Side by Side” report, which provides measure for

comparison. OFN has also been a resource for researching best practices including those around loan risk ratings, loan policies, collection policies and more.

3. Allow the equity-to-total capital percentage to fall below 20%.

**Interpretation:** An equity-to-total capital ratio is a standard measure used in the lending industry to insure that the lender has adequate financial reserves to minimize the risk of loss to other providers of loan capital that are investing in the company. This policy establishes a specific minimum capital requirement for CU. In essence, this also limits the amount of debt capital that CU is authorized to incur.

**Response: COMPLIANCE.**

**Discussion:** The Net Asset Ratio at September 30, 2023 was 56% with nearly \$14 million available for loans.

4. Create an unfavorable imbalance between loan terms offered by CU and average terms of borrowed capital.

**Interpretation:** This policy is designed to minimize CU's risk as it relates to rates and maturities on the money it lends compared to the money it borrows.

**Response: COMPLIANCE**

**Discussion:** CU's cost of funds is currently at about 1.2%. As CU has worked to increase its capital, loan rates have ranged from .75 to 3%.

CU tracks loan funds by the source of funds to ensure that that loans provided to borrowers 1) comply with all funder requirements, 2) provide a return in excess of the rate paid by CU and 3) carry terms that will allow CU to use revolved funds to repay borrowed funds.

CU has some exposure in our mortgage portfolio. This is due to the fact that some mortgages made by CRG were originally written with a 20 to 30-year term, while the source of funds used for this portfolio (PRI from the Ford Foundation) had a 15-year maturity. CU made the final payment on the Ford Foundation PRI in September 2020 but still has a portfolio of loans for a total of \$612,833.87 and some maturities at 2037. The servicing of this portfolio is soon to be managed by a CDFI partner in the Valley whose primary business is mortgage lending to the Hispanic community. Efforts will be made to provide mortgage relief for those who qualify for a TX covid mortgage forgiveness fund, and others will begin the legal process for collection.

5. Fail to provide a mechanism for an appropriate loan review and approval process that manages the credit risk associated with new loan commitments.

**Interpretation:** The organization will perform reasonable due diligence to insure that borrowers successfully repay their loans. CU will perform standard underwriting to qualify credit-worthy borrowers consistent with best practices of the CDFI industry.

**Response: COMPLIANCE**

**Discussion:** All loans are underwritten and presented to the appropriate loan committee. These committees include both CU employees and external individuals who have lending expertise.

6. Fail to respond quickly and decisively to problems that arise in the portfolio, taking legal steps to protect the organization's assets, if warranted.

**Interpretation:** When a problem arises in the portfolio, we take immediate action up to and including legal steps to insure that our collateral (if any) is protected and that we seek a timely resolution to the problem. Our goal is to avoid surprises.

**Response: COMPLIANCE**

**Discussion:** CU's Lending team meets regularly to review collection items and is using the Collector Module in NLS to track progress on each loan. CU works with an attorney in Pine Bluff who has assisted with loans in Arkansas and has connected CU to attorneys in other states as needed.

7. Fail to aggressively pursue loan receivables after a reasonable grace period and to provide adequate reserves for loan losses.

**Interpretation:** We will make every attempt to collect loan payments that are due to CU. We take a proactive approach to identify loan problems early and work with the borrowers to help them get loan payments back on schedule.

**Response: COMPLIANCE**

**Discussion:** CU aggressively pursues delinquent loans. In addition to the steps described above, clients are contacted immediately when there is a problem and technical assistance provider is engaged. If the borrower fails to engage in technical assistance, the loan will be turned over to a collection agency or an attorney.

CU has implemented a monitoring process to help identify and resolve problems early and avoid collections problems and losses. The monitoring process for loan clients is shared by both Loan Program assistants, lenders and the Entrepreneur Team.

8. Fail to process and post loan payments on a timely basis or disburse funds under controls that are insufficient to meet the board-appointed auditor's standards.

**Interpretation:** Loan payments are processed within 24 hours of receipt and posted the next morning. Controls meet auditor standards.

**Response: COMPLIANCE**

**Discussion:** Timely internal payment processing standards are in place. Disbursement controls meet auditor standards. All loan payments are processed in Fayetteville.

9. Operate without adequate conflict of interest policies and assurance of staff compliance with them.

**Interpretation:** Conflicts of interest or the appearance thereof, can be very serious in this business. Consequently, we take extra steps to insure that we understand both real and perceived conflicts.

**Response: COMPLIANCE**

**Discussion:** Our Conflict of Interest Policy requires each staff member to sign an annual Conflict of Interest Disclosure Statement. Conflict of Interest compliance is monitored by the Human Resources department.

10. Fail to build loan capital and increase the financial self-sufficiency of the lending function so it contributes to the organization's overall financial health.

**Interpretation:** Adequate loan capital is essential to meeting our mission. Our goal is to serve more customers while also being profitable with our lending activities.

**Response: COMPLIANCE**

**Discussion:** Growth of loan fund capital is a very high priority of CU staff. Currently, CU has approximately \$13 Million in capital available to lend with most of those funds allocated to water and wastewater loans. In 2023 CU has received loans for relending to small businesses from the Amarillo Area Foundation, Opportunity Finance Network, Wells Fargo, Walton Family Foundation, AR Community Foundation, Truist Foundation, Winthrop Rockefeller Foundation and the Sisters of Charity. We have received approval for additional SBA microloan funds. New funders are WoodNext Foundation, TLL Temple and Robert Wood Johnson. USDA RD has significantly increased funding for Environmental Lending in 2024. CDFI grant funding is in place for FY24 for over \$2MM.

11. Fail to enhance loan products by providing appropriate technical assistance, as appropriate, that will help build the capacity of borrowers and result in better loan outcomes.

**Interpretation:** Since many of our customers have had limited experience with credit, we work to provide them with financial education along with the loan.

**Response: COMPLIANCE**

**Discussion:** Consistent with available resources, we offer technical assistance to enhance the management and financial capacity of our borrowers whether small businesses or water systems. The technical assistance services often begin before the loan is closed.

12. Fail to develop and implement comprehensive portfolio management policies to manage portfolio risk and meet financing goals.

**Interpretation:** In order to be fair and consistent while minimizing our risk, we will have written policies that govern our lending programs.

**Response: COMPLIANCE**

**Discussion:** CU has a Loan Policy that has been updated and revised including new risk rating policies for both small business and water wastewater loans. Loan Loss Reserves are at 8.5% currently. Delinquency ratios are under 4%.



# ENDS FOCUS OF GRANTS OR CONTRACTS POLICY

POLICY NUMBER: 01-010

POLICY TYPE: EXECUTIVE LIMITATIONS

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The Chief Executive Officer shall only enter into grant agreements, loans, and contract arrangements that emphasize the production of board established Ends, and avoid unacceptable means.

The Chief Executive Officer is free to choose any appropriate organizational means for maintaining compliance with this policy, subject to the following limitations.

Limitations: None.

Ends Policy – Last Updated September 8, 2023

## **Why do we exist?**

Healthy and sustainable rural and urban communities create opportunities for achieving wealth and providing thriving livelihoods for all people living in Texas, Oklahoma, Arkansas, Louisiana, Mississippi, Alabama and Tennessee.

*Interpretation: CU takes a regional approach to its work, strengthening both rural communities and urban neighborhoods, and exploring opportunities for individual businesses and communities to link to surrounding rural and urban economies. CU's leadership in promoting and coordinating value chains directly links rural producers with urban market demand, thereby creating entrepreneurial opportunities in both rural and urban places.*

*CU is always expanding its delivery system for comprehensive services that support rural communities as they move toward prosperity by building leadership capacity and ensuring sound infrastructure. CU is supporting vibrant local economies in both rural and urban places through technical assistance, training and capital to small businesses. In all of our work, CU is vigilant that those at the economic margins have opportunities to achieve sustainable livelihoods.*

## **To what ends?**

Communities Unlimited is an organization that works and collaborates along the rural-urban continuum where all people benefit from:

- Healthy food and drinking water as well as related sanitary services

*Interpretation: CU provides technical assistance, training and capital to local officials and staff members of community environmental systems to enable them to comply with all local health and federal environmental regulations. CU also provides development assistance to communities to extend services to unserved households and businesses. CU creates market opportunities for local farmers that also provide healthy produce to individuals living in food deserts.*

- Affordable, attainable and safe housing

*Interpretation: CU partners with WE Serve to construct volumetric, modular homes that address the need for safe and affordable housing in the communities engaged through its Community Sustainability work. In July 2022, CU reinvented the Nuestra Casa program to provide home improvement loans in the Rio Grande Valley.*

- Affordable means of modern connectivity

*Interpretation: CU advises community leaders on the best strategy to pursue to connecting all residents to affordable high speed internet and facilitating productive and accountable relationships between communities and Internet Service Providers to that end.*

- Skills, knowledge and relationships necessary for entrepreneurs to create and run sustainable businesses that overcome the inhibitors to wealth

*Interpretation: CU provides intensive managerial assistance, training webinars and capital to individual entrepreneurs, cooperatives and non-profit social entrepreneurs to strengthen the local economy. It works to transition businesses to the next generation, turnaround struggling businesses, grow existing ventures and help entrepreneurs turn feasible business ideas into reality. Through its EWealthHealth program CU works on both the business and the financial strength of the entrepreneur to ensure that their small business is an asset in their overall path to wealth.*

- Appropriate capital

*Interpretation: CU provides loan capital to fill gaps left by private sector lenders and other CDFIs that directly impact a community's ability to achieve wealth, creating sustainable livelihoods and opportunities for all people who live there. Products include but are not limited to emergency and predevelopment loans to water and waste water systems, working capital and other loans to small businesses, consumer loans made in close collaboration with organizations in the field that meet specific mission objectives. The size of each loan directly reflects the needs and ability to repay that loan. While all other services are limited to the seven state market served by CU, capital can be provided nationally. CU also leverages capital through its partnerships to create access to larger loans and share risk.*

- Effective community-driven leadership

*Interpretation: Through the building of diverse community leadership teams, CU facilitates engaged residents in creating strategies that move their community toward prosperity, helps to secure resources for those strategies and supports their implementation.*

### ***How do we work?***

- Expand “thought and do” leadership nationally by creating new models and effectively blending multiple strategies that improve communities and lives of individuals.

*Interpretation: CU is a national thought leader in the area of community driven rural development by designing and testing solutions for individual communities, replicating those across multiple communities and leveraging national partnerships to train others on the solutions approaches. Through strategic blending CU's teams interact and leverage each other's services to assist community leaders in implementing strategies that move them toward prosperity.*

- Attracting and delivering resources to communities along the rural-urban continuum

*Interpretation: CU delivers a wide variety of services to rural communities and urban neighborhoods while also building partnerships with organizations that can deliver complementary services.*

- Building capacity and supporting problem solving

*Interpretation: CU's core competency is in building the knowledge, technical and leadership skills of community leaders and entrepreneurs while serving as a thought partner to identify and address root causes of the challenges they face.*

- Catalyzing deep collaborations locally and regionally

*Interpretation: CU's philosophy is built on the realization that the challenges faced in persistently poor places in the South are too great for any one organization to address alone. CU builds deep partnerships and collaborations locally, regionally and nationally that are mutually-beneficial and accountable to achieving the ends outlined above by delivering effective and comprehensive solutions.*

- Build the self-worth and capacity of individuals while supporting problem solving

*In all of its work, CU meets individual leaders, entrepreneurs and water/wastewater operators where they are to enhance their capacity to solve local challenges with the goal of moving these individuals to a place of hope and self-worth.*

**Response: COMPLIANT**

**Discussion:** CU's grants and contracts are focused on achieving the ends as interpreted above.