

STATE OF MICHIGAN
DEPARTMENT OF COMMERCE
FINANCIAL INSTITUTIONS BUREAU
BIDCO BULLETIN NO. 1

TO ALL LICENSED BUSINESS AND INDUSTRIAL DEVELOPMENT CORPORATIONS

SUBJECT: FINANCING ASSISTANCE & PORTFOLIO REVIEW POLICY

Because of the inherent nature of a BIDCO's financing activities, an assessment of risks associated with its financings should be conducted on an ongoing basis. The Financial Institutions Bureau is limited in its authority to consider the risk of a provision of financing except in specific circumstances. This ongoing assessment, therefore, is the responsibility of the management of the individual BIDCO and should be established as part of the licensee's formal policies.

For the reasons stated above, the Financial Institutions Bureau will require that each licensed business and industrial development corporation develop and implement by December 31, 1991 or within six months of the BIDCO's operational inception date (whichever is later) a written policy for financing assistance and portfolio review approved by its board of directors, which contains the following elements:

1) Financing Assistance Parameters

The policy should identify the various types and limits of financial assistance to be provided. These parameters should identify the financial limits of the BIDCO in terms of the maximum dollar amount limitation per transaction, as a percentage-of-shareholder-equity limitations and industry sector concentration limits if applicable. The Board of Directors should also consider other parameters it deems appropriate which are designed to limit acceptable risk.

2) Conflict of Interest Safeguards

This policy component should establish a process for formal review of all financing assistance arrangements and transactions to identify business and/or personal relationships which may pose potential or actual conflicts of interest under Article 8 and Section 511 of the Michigan BIDCO Act.

3) Risk Assessment Process

A risk assessment process should be included in this policy whereby each proposal for financing is analyzed in terms of potential return and risk levels assumed.

4) Approval Process

This policy provision should establish the procedure by which a proposal for financing assistance is reviewed for formal approval by the BIDCO. It should identify the BIDCO management and/or staff members who will be responsible for the financing decision, describe the relevant information necessary to consider each proposal, and establish procedures to document the ultimate financing decision.

5) Portfolio Review Program

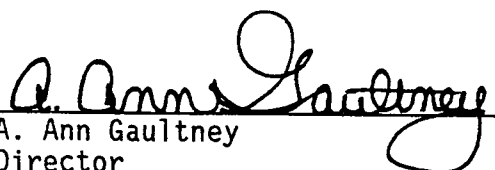
The portfolio review program should provide an ongoing assessment of the performance of each financing arrangement. The assessment of each financing arrangement should be conducted to provide an overall assessment of the quality of assets within the portfolio. Additionally, the review should include what corrective action, if any, should be taken to protect the BIDCO's financing.

6) Loan Loss Reserve

The policy should also provide for the establishment and maintenance of a loan loss reserve account to fund anticipated losses consistent with the ongoing findings of the BIDCO's portfolio review program.

This written policy, along with documentation of its ongoing implementation, shall be made available for review by Bureau staff during the licensee's annual examination or upon specific request of the Commissioner. In addition, the Bureau would expect to see documentation of the adoption and periodic review of this policy by the full Board of Directors of the licensed BIDCO.

The Bureau recognizes that there may be substantial diversity among BIDCOs and their approaches to this policy and its ongoing implementation, and it is not the objective of the Bureau to substitute its judgment for that of a BIDCO's officers and directors.


A. Ann Gaultney
Director
Consumer Finance Division


Russell S. Kropschot
Acting Commissioner

7/31/91
Date

7/31/91
Date