

# Company | Loan Loss Policy

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## Overview

Cardinal Financial Company, Limited Partnership (“Cardinal”) is committed to maintaining high loan quality throughout the origination process, with a strong emphasis on ensuring this quality is consistently reflected in overall loan performance.

Changes in underlying credit quality, along with adverse trends in loan performance and prepayment speeds, can significantly impact Cardinal’s ability to secure optimal pricing from investors. This directly influences the competitiveness of the pricing extended to branch locations.

To proactively manage these risks, Cardinal has implemented a Loan Loss Policy to oversee loan quality and performance, ensuring that all transactions are managed responsibly for the benefit of Cardinal’s customers.

## Loan Loss Expense Charges

Each branch is assessed a loan loss expense charge, measured in basis points, to account for potential future losses related to agency and investor repurchases resulting from early payment defaults, early principal curtailments, loan buybacks, warranty breaches, or losses sustained on defaulted loans.

This charge does not apply to losses from:

- Early pay-offs, or
- Principal curtailments, or prepayments that occur outside the designated early payoff period, as defined below.

If a branch’s credit profile declines or actual loss experience increases such that the current loan loss expense no longer sufficiently covers expected losses, Cardinal may raise the charge. Any adjustments to the charge would be applied prospectively.

## Early Payoffs & Principal Curtailment

An early payoff refers to any loan that is refinanced or fully paid off before the sixth scheduled payment due date.

A principal curtailment from an investor is typically triggered when a significant portion of the original loan principal is paid down early (e.g., more than 20% before the sixth payment due date, such as a \$200,000 payment three months after funding on a \$500,000 loan).

If an early pay-off or principal curtailment occurs, the revenue originally attributed to the branch is forfeited, as it must be returned to the investor.

All early payoff and principal curtailment losses will be charged back to the originating branch, based on the following formula:

- **Charge-back Amount = (Total Revenue – Fee Revenue – Corporate Margin)**

## Losses Incurred on ‘Exception Loans’

Cardinal may approve credit policy exceptions to fund certain loans when there is a reasonable expectation that the loans will remain marketable (“Exception Loan”), for instance, loans originated under discontinued products due to limited market liquidity.

If a branch requests such an Exception Loan and the investor later rejects the loan at the original locked price or reclaims the revenue, any resulting loss on the sale of the loan may be charged back to the originating branch. This charge would be treated as an adjustment to the estimated revenue recorded at the time of loan funding, at Cardinal’s discretion.

Additionally, Cardinal may apply a revenue hold-back to the branch’s profit and loss statement until the Exception Loan is successfully sold. If applicable, the hold-back amount will be credited back to the branch’s profit and loss statement once the sale is completed.

## References

Reference List
N/A

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## Revision History

*Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record. Versioning has been captured as of 10.1.20.*

Date	Version	Description	Approver
9.10.25	V1	Initial Publication	Brett Wojtkowiak Briana Wiederspahn Jon Paul Adam DeYoung Erica Price