

**NEW YORK BUSINESS  
DEVELOPMENT CORPORATION**



**COMBINED FINANCIAL STATEMENTS**

As of and for the years ended September 30, 2020 and 2019

# NEW YORK BUSINESS DEVELOPMENT CORPORATION

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors and Stockholders  
New York Business Development Corporation

### **Financial Statements**

We have audited the accompanying combined financial statements of New York Business Development Corporation and affiliates, which comprise the combined statements of financial condition as of September 30, 2020 and 2019, and the related combined statements of operations and comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of New York Business Development Corporation and affiliates as of September 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*UHY* LLP

Albany, New York  
December 18, 2020

**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
**COMBINED STATEMENTS OF FINANCIAL CONDITION**

	<b>September 30</b>	
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Loans receivable	\$ 589,608,782	\$ 175,460,842
Less allowance for loan losses	<u>(6,626,405)</u>	<u>(5,127,193)</u>
Net loans receivable	582,982,377	170,333,649
Cash	826,229	397,808
Restricted cash	11,284,980	6,343,861
Accrued interest receivable	2,911,312	796,660
Investments	6,949,537	5,580,453
Deferred tax benefit	1,838,687	1,518,833
Other receivables	46,238	5,372,456
Other assets	<u>8,017,806</u>	<u>6,037,876</u>
	<u><u>\$ 614,857,166</u></u>	<u><u>\$ 196,381,596</u></u>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Notes payable:		
Members	\$ 53,380,000	\$ 52,920,000
New York State Common Retirement Fund	58,712,625	46,421,717
Bank and other lines of credit	13,204,220	37,545,446
Bank term loans	8,320,529	11,471,617
PPP loans payable	427,157,721	-
Other obligations	<u>2,403,389</u>	<u>2,536,733</u>
Total notes payable	563,178,484	150,895,513
Accrued interest payable	726,493	568,103
Accrued expenses and other liabilities	<u>9,309,957</u>	<u>7,965,178</u>
Total liabilities	<u><u>573,214,934</u></u>	<u><u>159,428,794</u></u>
<b>Commitments and Contingencies</b>		
<b>Equity</b>		
Capital stock, no par value, authorized 474,461 shares; issued 212,751 shares; \$5 stated value per share	1,079,145	1,079,145
Paid-in capital	3,443,626	3,443,626
Retained earnings	27,272,526	23,719,323
Accumulated other comprehensive income	-	796,576
	<u>31,795,297</u>	<u>29,038,670</u>
Less treasury stock at cost, 475 shares	<u>(291,826)</u>	<u>(291,826)</u>
Total NYBDC stockholders' equity	<u><u>31,503,471</u></u>	<u><u>28,746,844</u></u>
Net assets of Empire State Certified Development Corporation	10,138,761	8,098,219
Accumulated other comprehensive income	-	107,739
Total ESCDC net assets	<u>10,138,761</u>	<u>8,205,958</u>
Total equity	<u><u>41,642,232</u></u>	<u><u>36,952,802</u></u>
	<u><u>\$ 614,857,166</u></u>	<u><u>\$ 196,381,596</u></u>

See notes to combined financial statements.

**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
**COMBINED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

	<b>Years Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Interest income	<b>\$ 15,922,607</b>	\$ 11,776,306
Interest expense	<b>5,628,570</b>	6,170,034
Net interest income	<b>10,294,037</b>	5,606,272
Provision for loan losses	<b>3,178,614</b>	1,678,635
Net interest income after provision for loan losses	<b>7,115,423</b>	3,927,637
Investment related income	<b>1,109,760</b>	-
Fees and other income	<b>17,218,244</b>	18,105,355
Income before operating expenses	<b>25,443,427</b>	22,032,992
Operating expenses:		
Salaries and employee benefits	<b>12,533,119</b>	12,253,049
Other expenses	<b>6,708,907</b>	6,601,900
Total operating expenses	<b>19,242,026</b>	18,854,949
Income before provision for income taxes	<b>6,201,401</b>	3,178,043
Provision for income taxes	<b>1,511,971</b>	835,397
Net income	<b>4,689,430</b>	2,342,646
Other comprehensive income		
Net unrealized gains on investment securities available for sale, net of tax	<b>-</b>	399,639
Comprehensive income	<b>\$ 4,689,430</b>	\$ 2,742,285

See notes to combined financial statements.

# NEW YORK BUSINESS DEVELOPMENT CORPORATION

## COMBINED STATEMENTS OF CHANGES IN EQUITY

	Years Ended September 30, 2020 and 2019									
	NYBDC					ESDC			Total Combined Equity	
	Capital Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Equity	Net Assets	Accumulated Other Comprehensive Income		Total Net Assets
Balance at October 1, 2018	\$ 1,079,145	\$ 3,443,626	\$ 22,580,662	\$ 477,765	\$ (42,176)	\$ 27,539,022	\$ 6,894,234	\$ 26,911	\$ 6,921,145	\$ 34,460,167
Net income:										
New York Business Development Corporation	-	-	1,138,661	-	-	1,138,661	-	-	-	1,138,661
Empire State Certified Development Corporation	-	-	-	-	-	-	1,203,985	-	1,203,985	1,203,985
Change in unrealized gains (losses) on investments (net of related income tax benefit)	-	-	-	318,811	-	318,811	-	80,828	80,828	399,639
Total comprehensive income						1,457,472	1,203,985		1,284,813	2,742,285
Purchase of Treasury Stock	-	-	-	-	(249,650)	(249,650)	-	-	-	(249,650)
Balance at September 30, 2019	1,079,145	3,443,626	23,719,323	796,576	(291,826)	28,746,844	8,098,219	107,739	8,205,958	36,952,802
Adoption of Accounting Standards Update 2016-01			796,576	(796,576)		-	107,739	(107,739)	-	-
Net income:										
New York Business Development Corporation	-	-	2,756,627	-	-	2,756,627	-	-	-	2,756,627
Empire State Certified Development Corporation	-	-	-	-	-	-	1,932,803	-	1,932,803	1,932,803
Balance at September 30, 2020	\$ 1,079,145	\$ 3,443,626	\$ 27,272,526	\$ -	\$ (291,826)	\$ 31,503,471	\$ 10,138,761	\$ -	\$ 10,138,761	\$ 41,642,232

See notes to combined financial statements.

**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
**COMBINED STATEMENTS OF CASH FLOWS**

	<b>Years Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 4,689,430	\$ 2,342,646
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized and realized gain on investments	(1,109,760)	-
Depreciation	180,917	196,893
Provision for loan losses	3,178,614	1,678,635
Deferred tax (benefit) expense	(319,853)	(63,590)
Changes in:		
Accrued interest receivable	(2,114,652)	206,266
Other receivables	5,326,218	(1,288,812)
Other assets	(2,081,391)	(512,305)
Other liabilities	1,503,173	(667,328)
Net cash provided by operating activities	<u>9,252,696</u>	<u>1,892,405</u>
<b>Cash Flows From Investing Activities</b>		
Loans disbursed, net of participations	(457,273,951)	(26,213,070)
Loan payments received	41,446,609	44,644,503
Purchase of investments	(428,431)	(902,875)
Proceeds from sale of investments	169,104	-
Changes in other obligations	(133,344)	-
Changes in other assets	(79,456)	667,484
Net cash (used in) provided by investing activities	<u>(416,299,469)</u>	<u>18,196,042</u>
<b>Cash Flows From Financing Activities</b>		
Purchase of Treasury Stock	-	(249,650)
Borrowings on bank and other lines of credit	92,893,099	75,450,000
Repayments on bank and other lines of credit	(120,410,326)	(82,668,533)
Borrowings under notes, loans and other obligations	32,244,074	6,962,043
Repayments under notes, loans and other obligations	(22,644,255)	(16,631,931)
Borrowings related to PPP loans and NYC small business continuity fund	844,758,707	-
Repayments related to PPP loans and NYC small business continuity fund	(414,424,986)	-
Net cash provided by (used in) financing activities	<u>412,416,313</u>	<u>(17,138,071)</u>
<b>Net change in cash</b>	<b>5,369,540</b>	<b>2,950,376</b>
<b>Cash and restricted cash, beginning of year</b>	<b>6,741,669</b>	<b>3,791,293</b>
<b>Cash and restricted cash, end of year</b>	<b><u>\$ 12,111,209</u></b>	<b><u>\$ 6,741,669</u></b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash payments for:		
Interest	<u>\$ 5,470,180</u>	<u>\$ 6,181,932</u>
Income taxes	<u>\$ 3,728,336</u>	<u>\$ 862,000</u>

See notes to combined financial statements.

**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 2020 and 2019**

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization: In 1955, by a special act, the New York State Legislature created New York Business Development Corporation (NYBDC). In 1981, Empire State Certified Development Corporation (ESCDC), an affiliate of NYBDC through common management, was organized, pursuant to Section 402 of the Not-for-Profit Laws of the State of New York, to assist business concerns through financings under the U.S. Small Business Administration's Certified Development Company (Sections 504) Program.

Together, NYBDC and ESCDC act as a complement to banks in providing long-term working capital, equipment, and real estate loans to a variety of businesses located in the State of New York, either in participation with, or as an adjunct to, the banking industry. ESCDC operations include the states of New Jersey and Pennsylvania for certain loan programs. NYBDC's loans are generally disbursed in amounts up to \$2.0 million and are secured by borrowers' assets and, in some instances, U.S. Small Business Administration (SBA) guarantees. A borrower's creditworthiness is evaluated on a case-by-case basis, with the amount of collateral obtained based upon management's credit evaluation of the borrower. Interest rates are either fixed or variable, and maturities range up to 20 years, depending upon the purpose of the loan.

Reporting Policy: The combined financial statements include the accounts of NYBDC, ESCDC and wholly owned subsidiaries of NYBDC which, from time to time, are utilized as real estate holding companies. These entities are collectively referred to as the "Company". All material intercompany accounts and transactions have been eliminated.

Loans and Allowance for Loan Losses: Loans receivable are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest on loans is calculated utilizing the simple interest method. Accrual of interest is discontinued on a loan at such time as management believes, after considering economic/business conditions and collection efforts that the borrowers' financial condition is such that collection of interest is doubtful. Impaired loans, or loans for which it is probable the Company will be unable to collect all contractual principal and interest payments, are generally recorded at the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the underlying collateral. Interest payments received on such loans are applied as a reduction of the loan principal balance.

The allowance for loan losses is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and amount of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions, collateral, and the extent of SBA guarantees.

The allowance for loan losses consists of specific valuation allowances based on probable losses on specifically identified impaired loans, generally determined based on collateral values or the present value of estimated cash flows; and general valuation allowances based on net historical loan loss experience for similar loans with similar characteristics and trends adjusted as appropriate for risk factors specific to the respective loan types. This evaluation is inherently subjective as it requires the estimation and quantification of future events that are susceptible to significant revision as more certain information becomes available. Because of uncertainties inherent in the estimation process, management's estimate of future credit losses in the loan portfolio and the related allowance may change in the near term.



**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 2020 and 2019**

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Restricted Cash:*** Restricted cash, which includes money market cash equivalents, is comprised, in part, of net draw downs and borrower loan payments pending disbursement under the New York State Common Retirement Fund Loan (see Note 4). Such cash, which approximates \$952,000 and \$3,431,000 at September 30, 2020 and 2019, respectively, is designated as the Uninvested Collateral Account and pledged against these borrowings. The Company also participates in the New York State Capital Access Program (CAP), a program that provides certain matching funds to financial institutions for loan loss reserves as an incentive to increase small business lending. Under the CAP program, certain state, borrower and lender contributions are funded at closing and held in a restricted cash account until such time that they may be required to fund CAP related loan losses. The restricted cash held by the Company under the CAP program, which approximated \$1,095,000 and \$1,263,000 at September 30, 2020 and 2019, respectively, has been charged with cumulative CAP related loan losses amounting to approximately \$237,800 as of September 30, 2020. The current year loss of approximately \$188,000 is included as an adjustment to the allowance for loan losses account (see Note 2). The Company also participates in the Community Advantage Lending Program, an SBA program which allows CDC's to fund 7-A lending programs. The restricted cash held by the Company under the Community Advantage Lending Program approximated \$711,000 and \$704,000 at September 30, 2020 and 2019, respectively. The company also participates in the NYS Food Manufacturers Fund. Restricted cash held by the company under this program approximated \$92,000 and \$91,000 at September 30, 2020 and 2019, respectively. Additionally, at September 30, 2020 and 2019, restricted cash includes required borrower deposits of \$480,000 and \$447,000, respectively, which relate to certain acquired loans and other required borrower payments. \$406,000 is also included in restricted cash at September 30, 2019 relating to certain loans sold during the year. There were no such deposits related to loans sold at September 30, 2020. During 2020, the Company became a participating member of a financial institution's program to assist small businesses owned by veterans. Restricted cash held by the company under this program approximated \$3,176,000 at September 30, 2020. Restricted cash related to the Company's facilitation of the Paycheck Protection Program ("PPP") and administration of the NYC Small Business Continuity Fund (see Notes 4 and 9) totaled \$4,580,000 and \$196,000, respectively, at September 30, 2020.

***Investments:*** The Company's investments consist of equity securities of publicly traded companies and partnership interests in privately held investment funds (see Note 3). Investments are recorded at fair value with changes in fair value recorded as earnings. The investments in privately held funds require future capital commitments and, in this regard, as of September 30, 2020, the Company had invested approximately \$1,962,000 out of a total commitment of \$2,500,000, leaving a commitment of \$538,000.

***Other Assets:*** Other assets include furniture and equipment, prepaids, and certain other assets, including other real estate owned (OREO) and other similar accounts. Generally, OREO properties are acquired through loan foreclosure and held for sale. These properties are initially recorded at the lower of the carrying amount of the related loan or the asset's fair value, less costs to sell. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less costs to sell. OREO properties, including other similar accounts, approximated \$402,000 and \$502,000 at September 30, 2020 and 2019, respectively.

***Fees and Other Income:*** Fees and other income are principally derived from servicing and processing fees (approximating \$16,582,000 and \$14,043,000 in the fiscal years ended September 30, 2020 and 2019, respectively), gains on the sale of loans (approximating \$636,000 and \$816,000, respectively), and certain other income. Fees are recognized as revenue at the time the related services are performed (see Note 9 for accounting for PPP loan processing fees).

**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 2020 and 2019**

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Taxes: Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due and deferred taxes using the asset and liability method of accounting for income taxes (see Note 5). Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax reporting purposes. These differences, which primarily relate to the future tax benefits associated with recording loan losses, also include amounts attributable to certain employee benefits and deferred compensation. Deferred tax benefit (an asset account) represents the net future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Accounting Standards Adoption: During 2020, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities.

Prior to the adoption of ASU 2016-01, unrealized gains and losses were excluded from earnings and recognized in other comprehensive income until realized through sale. After the adoption of ASU 2016-01 on October 1, 2019, unrealized gains and losses are included in earnings. The adoption of this guidance resulted in a decrease in accumulated other comprehensive income and an increase in retained earnings of approximately \$904,300.

During 2020, the Company adopted ASU No. 2016-18, *Restricted Cash*, which requires that the Consolidated Statement of Cash Flows present the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted this amended guidance retrospectively as of October 1, 2018. The consolidated statements of cash flows now reflect the inclusion and activity of restricted cash balances of \$11,284,980 and \$6,343,861 as of September 30, 2020 and 2019, respectively.

Other Comprehensive Income: Other comprehensive income consists of net income and other gains and losses affecting equity that, under generally accepted accounting principles, were excluded from net income prior to adoption of ASU 2016-01. For the Company, such items are comprised principally of unrealized gains and losses on certain securities available for sale, net of applicable income taxes, for the year ended September 30, 2019.

Use of Estimates and Assumptions: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain items in the 2019 financial statements have been reclassified to conform with the current year presentation.

Subsequent Events: Subsequent events have been evaluated through December 18, 2020, the date the financial statements were available to be issued.

**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 2020 and 2019**

**NOTE 2 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES**

Loans receivable, as presented on the combined statements of financial condition, consist of the following:

	<b>September 30</b>	
	<b>2020</b>	<b>2019</b>
Loans receivable	\$ 238,739,714	\$ 251,769,575
Paycheck Protection Program	404,366,779	-
New York City Small Business Continuity Fund	22,225,367	-
Related parties	16,876,679	21,875,728
Less participations sold	<u>(92,599,757)</u>	<u>(98,184,461)</u>
	589,608,782	175,460,842
Less allowance for loan losses	<u>(6,626,405)</u>	<u>(5,127,193)</u>
Loans receivable, net	<u>\$ 582,982,377</u>	<u>\$ 170,333,649</u>

The Company did not record a provision for the Paycheck Protection Program or the New York City Small Business Continuity Fund loans. See Note 9 for accounting of these loans. In addition, the Company did not record a provision for the related party loans. See Note 8 for related parties disclosure.

The allowance for loan losses (a contra-asset account) is periodically increased by a provision for loan losses, which is charged to expense, and reduced by losses, net of recoveries and other adjustments. Because of uncertainties inherent in the estimation and quantification of future events, management's estimate of future credit losses in the loan portfolio and the related allowance is subject to change in future years, and the amount of such change is not reasonably possible to estimate.

A table of the changes in the allowance for loan losses account follows:

	<b>September 30</b>	
	<b>2020</b>	<b>2019</b>
Balance, beginning of year	\$ 5,127,193	\$ 5,061,182
Provision for loan losses	3,178,614	1,678,635
Recoveries credited to the allowance	289,226	22,332
Losses charged to the allowance	(1,644,509)	(1,644,032)
Other adjustments	<u>(324,119)</u>	<u>9,076</u>
Balance, end of year	<u>\$ 6,626,405</u>	<u>\$ 5,127,193</u>

Other adjustments represent reserve activity related to the Capital Access Program and Bridge to Success loans (both special New York State loan programs).

**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
September 30, 2020 and 2019

**NOTE 2 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)**

The following table presents the balance in the allowance for loan losses and the recorded investment in loans receivable based on impairment evaluation method:

	<b>September 30</b>	
	<b>2020</b>	<b>2019</b>
<u>Allowance for loan losses</u>		
Individually evaluated for impairment	\$ 2,246,228	\$ 1,107,897
Collectively evaluated for impairment	4,380,177	4,019,296
Balance, end of year	<u>\$ 6,626,405</u>	<u>\$ 5,127,193</u>
<u>Loans</u>		
Individually evaluated for impairment	\$ 17,593,117	\$ 14,448,623
Collectively evaluated for impairment	572,015,665	161,012,219
Balance, end of year	<u>\$ 589,608,782</u>	<u>\$ 175,460,842</u>

The following tables present information about impaired loans:

<b>September 30, 2020</b>			
<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>
<u>\$ 9,328,677</u>	<u>\$ 9,328,677</u>	<u>\$ 2,246,228</u>	<u>\$ 7,307,948</u>
<b>September 30, 2019</b>			
<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>
<u>\$ 5,287,219</u>	<u>\$ 5,287,219</u>	<u>\$ 1,107,897</u>	<u>\$ 3,932,609</u>

Interest income recognized for the time that loans were impaired during 2020 and 2019 was not significant.

The following tables present loan balance information with regard to past due, non-accrual, and current loans:

<b>September 30, 2020</b>						
<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Non-Accrual</b>	<b>Current</b>	<b>Total Loans</b>
<u>\$ 2,124,008</u>	<u>\$ -</u>	<u>\$ 829,324</u>	<u>\$ 2,953,332</u>	<u>\$ 16,505,698</u>	<u>\$ 570,149,752</u>	<u>\$ 589,608,782</u>
<b>September 30, 2019</b>						
<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Non-Accrual</b>	<b>Current</b>	<b>Total Loans</b>
<u>\$ 2,036,646</u>	<u>\$ 186,972</u>	<u>\$ 1,135,670</u>	<u>\$ 3,359,288</u>	<u>\$ 13,356,323</u>	<u>\$ 158,745,231</u>	<u>\$ 175,460,842</u>

**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 2020 and 2019**

**NOTE 2 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES** *(Continued)*

Loans are placed on nonaccrual status when timely collection of principal and interest in accordance with contractual terms is doubtful. Loans are transferred to nonaccrual status generally when principal or interest payments become ninety days delinquent, unless management has indications that nonaccrual status is not prudent based on known borrower circumstances. When a loan is transferred to a nonaccrual status, all interest previously accrued but not collected is charged-off against interest income.

If ultimate repayment of a nonaccrual loan is expected, any payments received are applied in accordance with contractual terms. If ultimate repayments of principal is not expected, any payment received on a nonaccrual loan is applied to principal until ultimate repayments becomes expected. Nonaccrual loans are returned to accrual status when they become current as to principal and interest and demonstrate a period of performance under the contractual terms and, in the opinion of management, are fully collectible as to principal and interest. When in the opinion of management the collection of principal appears unlikely, the loan balance is charged-off in total or in part.

Loans on which the accrual of interest has been discontinued approximated \$16,506,000 (or \$11,243,000, net of SBA guarantees) and \$13,356,000 (or \$9,344,000, net of SBA guarantees) at September 30, 2020 and 2019, respectively.

The Company has an internal grading system to help evaluate and quantify the Company's loan portfolio with respect to credit quality and risk. Management reviews loans on a regular basis and categorizes them into risk categories based on relevant information about the ability of the borrowers to service their debt. In evaluating the ability of borrowers to service their debt consideration is given to items such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

Management provides for the classification of loans which are considered to be of lesser quality as substandard, doubtful, or loss (classified loans). Management considers a loan substandard if it is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard loans, which have a well-defined weakness that jeopardizes liquidation of the loan, include those loans where there is the distinct possibility that the Company will sustain some loss of principal if the deficiencies are not corrected. Loans that are classified as doubtful have all of the weaknesses inherent in those loans that are classified as substandard, but also have the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans that management classifies as loss are those considered uncollectible and of such little value that their continuance as an asset is not appropriate and the uncollectible amounts are charged off. Loans that do not expose the Company to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weakness and deserve management's close attention, are designated as special mention.

These potential loan weaknesses, if not corrected, may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risks to warrant classification. Commercial loans not meeting the above criteria are considered to be pass rated loans.

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**NOTE 2 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES** (Continued)

The following table presents information pertaining to the credit risk profile of loans at September 30, 2020 and 2019, aggregated by risk category:

<b>Risk Category</b>	<b>September 30</b>	
	<b>2020</b>	<b>2019</b>
Pass	\$ 536,884,135	\$ 121,325,039
Special Mention	33,185,004	39,926,097
Substandard	19,378,299	14,048,915
Doubtful	161,344	160,791
Total	<u>\$ 589,608,782</u>	<u>\$ 175,460,842</u>

ESCDC's 504 program loans serviced for the SBA have no loan loss exposure and are not included in the accompanying statements of financial position. The unpaid principal balance on these loans approximated \$1.216 billion and \$1.101 billion at September 30, 2020 and 2019, respectively.

In both 2020 and 2019, the Company entered into a series of transactions which provided for the sale (to unrelated parties) of the SBA guaranteed portion of certain of its loans. The Company retained the non-guaranteed portion of these loans and the related servicing rights on the entire loan portfolio. These transactions included 21 loans and 49 loans in 2020 and 2019, respectively, with an average interest rate approximating 6.7% and 8.9% at September 30, 2020 and 2019, respectively. The transactions were recorded utilizing discounted present value factors to determine the fair value of the guaranteed portion of the loans and resulted in financial statement gains in the approximate amount of \$637,000 and \$816,000 for the years ended September 30, 2020 and 2019, respectively. These transactions also resulted in the computed value of the continuing service rights (on the loans sold) to be recorded as an other asset of approximately \$971,000 and \$992,000 in 2020 and 2019, respectively which will be amortized over the term of the underlying loans. The gains are included as a component of other income on the Company's Combined Statements of Operations.

**NOTE 3 — INVESTMENTS**

Generally Accepted Accounting Principles for fair value measurements defines fair value, establishes a framework for measuring fair value, and provides disclosures about fair value measurements. Fair value measurements emphasize that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing an asset or liability.

Fair value measurement accounting establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is classified into three general levels: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs include data points that are observable, such as quoted prices for similar assets in active markets and quoted prices for identical assets or similar assets in markets that are not active; and Level 3 inputs are unobservable data points for the asset, and include situations where there is little, if any, market activity for the asset.

Investments are stated at fair value and include both marketable equity securities and partnership interests in certain privately held investment funds. Since there is no active market which provides for the redemption of the Company's privately held investments, they are classified as Level 3 in the fair value hierarchy.

**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
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**NOTE 3 — INVESTMENTS (Continued)**

Marketable securities, which are principally held as a funding offset for certain Company benefit plans, include approximately \$3,043,000 in marketable debt and equity securities valued at quoted market prices. At both September 30, 2020 and 2019, the fair value of the Company's marketable securities approximated the corresponding liability under these plans. The corresponding liability is included in accrued expenses and other liabilities on the Company's Combined Statements of Financial Condition. Accordingly, the Company bears no material risk of loss in holding its marketable securities.

Investments consist of the following:

	<b>September 30</b>	
	<b>2020</b>	<b>2019</b>
Marketable securities (classified as Level 1)	\$ 3,042,513	\$ 2,568,308
Non-marketable equity securities (classified as Level 3)	3,907,024	3,012,145
	<u>\$ 6,949,537</u>	<u>\$ 5,580,453</u>

**NOTE 4 — NOTES PAYABLE**

Member Borrowings

Members consist principally of banks which have applied for membership and have been accepted by NYBDC's Board of Directors. Many members are also stockholders of NYBDC. Funds are obtained from members who, at the time they become members, agree to lend money to NYBDC upon call, subject to limits provided in the basic legislation which established the Company. The loan limit available from members was approximately \$83.1 million at September 30, 2020.

Calls on members have terms for maturities of one year or less with the September 30, 2020 outstanding loan balances maturing August 1, 2021. Interest is payable twice a year, on February 1 and August 1. Member borrowings provide for interest at the lowest prime commercial rate, prime less 80 basis points, or 100 to 275 basis points above the 30 day LIBOR rate (dependent upon the member). At September 30, 2020, the interest rates paid to members ranged from 1.60% to 3.25%. Member loans, which amounted to \$53,380,000 and \$52,920,000 at September 30, 2020 and 2019, respectively, are unsecured.

New York State Common Retirement Fund Borrowings

NYBDC has entered into four loan agreements, the most recent of which was effective in July 2019 with the New York State Common Retirement Fund (the "Fund") under which the Fund has made available to NYBDC an aggregate principal amount not to exceed \$400.0 million. The proceeds of these loans may be used by NYBDC to extend credit to small businesses operating in the State of New York.

Under the agreements, borrowings under the loans bear interest at the following annual rate: (i) the aggregate of the 30-day net yield on the "Vision Treasury Money Market Fund" on uninvested funds and (ii) between 0.50% and 1.50% (principally dependent upon the nature of the SBA involvement) over the applicable treasury note rate for comparable original maturities, on the principal amount of each outstanding loan. At September 30, 2020, the interest rates paid to the Fund ranged from 1.49% to 5.71%.

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**NOTE 4 — NOTES PAYABLE** (Continued)

New York State Common Retirement Fund Borrowings (Continued)

At September 30, 2020 and 2019, the outstanding balances on these loans were approximately \$58,713,000 and \$46,422,000, respectively. The principal payments on the loans generally parallel the underlying loan repayments between NYBDC and its borrower (over a maximum of 15 years).

The loans are collateralized by NYBDC's right, title and interest in the Uninvested Collateral Account. In addition, the loan agreements provide for various restrictive covenants, such as restrictions on incurring new secured indebtedness or liens (except for certain office equipment and furniture), restrictions on the payment of dividends, and restrictions on providing any guarantees.

Bank and Other Lines of Credit Borrowings

NYBDC has available lines of credit with various banks (all of which are members and stockholders), other economic development agencies, and certain other lenders totaling approximately \$89.4 million at September 30, 2020. The amounts outstanding on these borrowings at September 30, 2020 and 2019 were approximately \$13,204,000 and \$37,545,000, respectively. The line of credit agreements, all of which are unsecured, are renewed annually and generally provide for interest at LIBOR based index rates. At September 30, 2020, the interest rates under available lines of credit ranged from 1.00% to 4.00%.

Bank Term Borrowings

NYBDC has entered into agreements with three financial institutions, all of which are members and stockholders, which provide for various short and long-term borrowings. The overall cost of funds for these borrowings, the substantial portion of which provide for fixed rates, ranging from 2.39% to 5.00% at September 30, 2020. The term agreements provide for total available credit of approximately \$31.9 million, of which amounts outstanding were approximately \$8,321,000 and \$11,472,000 at September 30, 2020 and 2019, respectively. The agreements, with original terms ranging from 4 to 20 years, provide for annual principal reduction payments, dependent upon the amount of borrowings, which approximated \$3.1 million in the year ended September 30, 2020. Future annual principal reduction payments, which will generally parallel the underlying loans between NYBDC and its borrowers, are scheduled to approximate \$1.7 million in the year ended September 30, 2021.

Paycheck Protection Act and NYC Small Business Continuity Fund

In support of its PPP related activities, NYBDC borrowed \$291.0 million on lines of credit from 21 financial institutions during the year ended September 30, 2020. Each line had a stated interest rate of 1.00% and no stated repayment terms or maturity dates. All funds borrowed on these lines were paid in full along with accrued interest prior to September 30, 2020. Several financial institutions have kept NYBDC's lines open in the event additional federal funding is advanced for the Paycheck Protection Act.

In April 2020, NYBDC entered into a loan agreement with NYS Empire State Development in which NYBDC received \$6 million in support of its PPP related activities. This agreement has a stated interest rate of 0.25% and matures on December 31, 2023. The entire \$6 million is outstanding at September 30, 2020.

In May 2020, NYBDC entered into a loan agreement with a financial institution to borrow up to \$110.0 million on an as-needed basis to support PPP related activities. The agreement bears no interest and matures on June 30, 2022. Approximately \$16.4 million is outstanding at September 30, 2020.



**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
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**NOTE 4 — NOTES PAYABLE** (Continued)

Paycheck Protection Act and NYC Small Business Continuity Fund (Continued)

In June 2020, NYBDC entered into a loan agreement with the Federal Reserve to borrow up to an amount equal to the PPP loans pledged as collateral on an as-needed basis to support PPP related activities. The agreement has a stated interest rate of .35%. Maturity mirrors the underlying PPP loans, accelerated by loan forgiveness. Approximately \$380.8 million is outstanding at September 30, 2020.

In April 2020, the NYBDC entered an agreement to administer the NYC Small Business Continuity Fund, a program designed to assist small businesses in their recovery from the Covid-19 pandemic. NYBDC borrowed a total of \$24 million in notes from three unrelated parties. Each underlying note is interest free and has a stated maturity date of October 8, 2025. The entire \$24 million is outstanding at September 30, 2020.

Other Obligations

Other obligations principally include an escrow reserve fund resulting from the Company's purchase of Statewide's performing loan portfolio (see Note 7). This escrow, which was established to fund any future Company losses and related costs arising from loans purchased under the Statewide transaction, amounted to approximately \$2,403,000 and \$2,537,000 at September 30, 2020 and 2019, respectively.

**NOTE 5 — INCOME TAXES**

The components of income tax expense (benefit) are as follows:

	<b>September 30</b>	
	<b>2020</b>	<b>2019</b>
Current taxes		
Federal	\$ 1,437,917	\$ 662,228
State and city	393,907	236,759
Deferred taxes	<u>(319,853)</u>	<u>(63,590)</u>
Net expense	<u>\$ 1,511,971</u>	<u>\$ 835,397</u>

As of September 30, 2020 and 2019, deferred tax assets, which are recognized for deductible temporary differences, principally related to the allowance for loan losses and deferred compensation, approximated \$1,839,000 and \$1,519,000, respectively. There were no deferred tax liabilities recognized for taxable temporary differences. Deferred tax assets are included as an asset in the combined statements of financial condition.

Effective tax rates for the years ended September 30, 2020 and 2019 are 24.4% and 26.3%, respectively. The differences between income taxes computed under federal statutory rates and effective rates is primarily attributable to state and city taxes, and certain tax adjustments.

NYBDC accounts for uncertain tax positions according to guidance issued by the Financial Accounting Standards Board. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold which an income tax position is required to meet before being recognized in the financial statements and applies to all tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 2020 and 2019**

**NOTE 5 — INCOME TAXES** (Continued)

NYBDC believes that there are no tax positions taken or to be taken that would significantly increase or decrease unrecognized tax benefits within twelve months of the reporting date. None of NYBDC's or ESCDC's income tax returns are currently under examination by the Internal Revenue Service or state authorities.

**NOTE 6 — EMPLOYEE BENEFIT PLANS**

The Company maintains a salary reduction 401(k) plan and a Supplemental Executive Retirement Plan (SERP).

The salary reduction 401(k) plan allows employees to defer and contribute a portion of their salary into the plan with the employer matching the employees' contributions up to 6% and providing for certain profit sharing contributions, subject to limitations imposed by the Internal Revenue Service. The plan is funded on a current basis. The net expense for the plan was approximately \$753,000 and \$622,000 for the years ended September 30, 2020 and 2019, respectively.

The SERP, a non-qualified plan, is intended to provide supplemental retirement benefits due to limitations imposed under the Internal Revenue Code. The computed benefit under the SERP, a component of accrued expenses on the Company's statements of financial condition, approximated \$778,000 and \$728,000 at September 30, 2020 and 2019, respectively. The expense for the SERP, a component of operating expenses on the Company's statements of operations and comprehensive income, was \$50,000 for both the years ended September 30, 2020 and 2019.

The total expense for all Company employee benefit plans was approximately \$803,000 and \$696,000 for the years ended September 30, 2020 and 2019, respectively.

**NOTE 7 — COMMITMENTS AND CONTINGENCIES**

Commitments with Off-Balance-Sheet Risk

In the normal course of business, NYBDC provides commitments to extend credit in order to meet the financing needs of its customers. These commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statements of financial condition.

Loan commitments, excluding SBA 504 Program loan commitments, at September 30, 2020 are as follows:

	<b>Number of Loans</b>	<b>Amount</b>
Loans authorized, but not fully disbursed to borrowers	34	\$ 25,722,025
Less estimated bank participations on loan commitments		(1,627,298)
Net outstanding loan commitments	<u>34</u>	<u>\$ 24,094,727</u>

**NEW YORK BUSINESS DEVELOPMENT CORPORATION**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
September 30, 2020 and 2019

**NOTE 7 — COMMITMENTS AND CONTINGENCIES (Continued)**

Commitments with Off-Balance-Sheet Risk (Continued)

Commitments to extend credit represent obligations to lend to a customer as long as there is no violation of any condition established under the loan approval. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

At September 30, 2020, ESCDC's outstanding SBA 504 Program loan commitments, approved by the Company's Board of Directors, approximate \$302.1 million. However, commitments under the SBA 504 Program do not expose the Company to any material losses.

Operating Lease Commitments

The Company occupies office facilities and leases certain office equipment under various operating lease agreements. Terms of the leases range from a month-to-month tenancy to a ten year commitment. At September 30, 2020, approximate future rent commitments due under leases with terms in excess of one year are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2021	\$ 1,001,000
2022	958,000
2023	982,000
2024	719,000
2025	526,000
Thereafter	<u>1,003,000</u>
	<u>\$ 5,189,000</u>

Total lease costs were approximately \$1,057,000 and \$1,080,000 for the years ended September 30, 2020 and 2019, respectively.

Concentration of Credit Risk

The Company's loan portfolio consists primarily of real estate and similarly secured loans to small business borrowers throughout New York State. The borrower's ability to honor their loan agreements is, in part, dependent upon the State's economy.

Statewide Contingency

In September 2013, Statewide Zone Capital Corporation (Statewide), a privately owned loan and investment fund, adopted a plan of dissolution as a consequence of certain changes to its enabling legislation under New York State Law. The operations of Statewide are managed by NYBDC, which also owns approximately 9.4% of Statewide's outstanding common stock. Concurrent with the adoption of the plan, the Company and Statewide (which is not combined in the accompanying financial statements) entered into a Loan Purchase and Sale Agreement under which all of Statewide's performing loans, approximating \$15.3 million, were purchased by the Company in an amount equal to the principal portion of all loans and unpaid interest, net of an escrow reserve fund in the amount of \$3 million. The transaction

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**NOTE 7 — COMMITMENTS AND CONTINGENCIES** (Continued)

Statewide Contingency (Continued)

provided for the holdback of the escrow reserve, which was intended to fund any future Company losses and related costs arising from loans purchased under the Agreement, to be held by the Company in an unrestricted account. Statewide may be entitled to periodic distributions from the escrow reserve as the aggregate principal balance of the purchased loans declines to an amount which is less than the amount remaining in the escrow reserve.

The balance of NYBDC's purchased Statewide loans approximated \$1,658,000 and \$2,321,000 at September 30, 2020 and 2019, respectively.

**NOTE 8 — RELATED PARTIES**

As a result of common management and operational support, NYBDC Local Development Corporation d/b/a Pursuit Community Finance ("PCF"), Prudent Lenders LLC ("Prudent"), and Excelsior Local Development Corporation ("ELDC") are considered affiliates of the Company. The Company charges each affiliate for its share of staffing, certain shared operating expenses, and expenses paid on the affiliates' behalf, or based on an agreed-upon billing structure based on services provided. In addition, the Company has entered into a Loan Agreement with each affiliate, individually, and occasionally makes additional advances in support of operations.

PCF

During the years ended September 30, 2020 and 2019, NYBDC charged PCF approximately \$946,000 and \$1,140,000 for reimbursement of staff time and certain operating expenses. In addition, in October 2018, the Company and PCF entered into a Loan Agreement with a stated interest rate of the Company's internal cost of funds plus 1.50%. The line of credit matures September 30, 2023, with automatic renewal options. For the years ended September 30, 2020 and 2019, the Company recognized interest income of approximately \$614,000 and \$1,455,000, respectively. The outstanding balance on the line was approximately \$9,937,000 and \$3,247,000 at September 30, 2020 and 2019, respectively, and is presented with loans receivable on the statement of financial condition.

Prudent

In May 2012, the Company entered into an operating agreement with Prudent to provide loan processing, closing, servicing, and liquidation support. NYBDC made an initial investment of \$35,000 and is currently a 50% owner. The investment is being accounted for using the equity method. During the years ended September 30, 2020 and 2019, NYBDC charged Prudent approximately \$1,602,000 and \$2,771,000 for services provided, respectively.

In September 2013, NYBDC entered into a Loan Agreement with Prudent in the amount of \$250,000. The line of credit bears interest at 6.00%. For each of the years ended September 30, 2020 and 2019, the Company recognized interest income of approximately \$6,000. There was \$95,000 outstanding on the line at both September 30, 2020 and 2019 which is presented with loans receivable on the statement of financial condition.

Since inception in 2012, the Company has had an outstanding balance due from Prudent resulting from charges for services provided. No interest is charged on these borrowings and there is no stated repayment schedule. The outstanding balance on the line was approximately \$1,211,000 and \$1,653,000 at September 30, 2020 and 2019, respectively.

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**NOTE 8 — RELATED PARTIES (Continued)**

ELDC

In October 2019, ELDC was created to assist both new and existing small businesses in the State of New York by providing financing for the acquisition of real property and construction and renovation projects. During the year ended September 30, 2020, NYBDC charged ELDC approximately \$104,000 for reimbursement of staff time. In addition, the Company and ELDC entered into a Loan Agreement with a stated interest rate of the Company's internal cost of funds plus 1.50%. The line of credit matures September 30, 2024, with automatic renewal options. For the year ended September 30, 2020, the Company recognized interest income of approximately \$455,000. The outstanding balance on the line was approximately \$6,845,000 and \$18,534,000 at September 30, 2020 and 2019, respectively, and is presented with loans receivable on the statement of financial condition.

**NOTE 9 — COVID-19**

In March 2020, the World Health Organization recognized COVID-19 as a pandemic. In response, the United States federal government and various state and local governments have, among other actions, imposed travel and business restrictions and required or advised communities in which the Company does business to adopt stay-at-home orders and social distancing guidelines, causing some businesses to adjust, reduce or suspend operating activities. These restrictions and other consequences of the pandemic have resulted in significant adverse effects for many different types of businesses and have resulted in a significant number of layoffs and furloughs of employees in the Company's market area. The Company expects the operations and financial results (including the increase to the provision for loan losses) to continue to be adversely impacted by the COVID-19 pandemic as many businesses and consumers are unable to meet current repayment obligations.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), in addition to providing financial assistance to both businesses and consumers, creates a forbearance program for federally-backed mortgage loans, protects borrowers from negative credit reporting due to loan accommodations related to the national emergency, and provides financial institutions and lenders the option to temporarily suspend certain requirements under GAAP related to troubled debt restructurings for a limited period of time to account for the effects of COVID-19. Loan modifications and payment deferrals as a result of COVID-19 that meet the criteria established under Section 4013 of the CARES Act, or the Company's banking regulators, are excluded from evaluation of troubled debt restructuring classification and will continue to be reported as current during the payment deferral period. The Company's policy is to continue to accrue interest during the deferral period.

As a result of the spread of COVID-19, economic uncertainties have arisen which are likely to negatively impact the Company's operational and financial performance. The extent of the impact of COVID-19 on the Company's operational and financial performance cannot be reasonably estimated at this time as the duration and scope of the pandemic remains unknown.

Paycheck Protection Program

Section 1103 of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") created the PPP, a program administered by the SBA to provide loans to small business for payroll and other basic expenses during the COVID-19 pandemic. The Company has participated in the PPP as a lender. Loans made under the PPP are fully guaranteed by the SBA, whose guarantee is backed by the full faith and

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**NOTE 9 — COVID-19** *(Continued)*

*Paycheck Protection Program* *(Continued)*

credit of the United States. The SBA will reimburse PPP lenders for any amount of a PPP covered loan that is forgiven, and PPP lenders will not be held liable for any representations made by the PPP borrowers in connection with their requests for loan forgiveness. Lenders receive pre-determined fees for processing and servicing PPP loans. Fees, net of origination costs, totaled approximately \$13,610,000 and are recognized over the life of the loan using the effective yield method. The Company recognized approximately \$3,614,000 of fees in interest income on the Combined Statement of Operations and Comprehensive Income as of September 30, 2020. The remaining balance of approximately \$9,996,000 is deferred and is included as an offset to loans receivable on the Combined Statement of Financial Condition.

The PPP commenced on April 3, 2020 and was available to qualified borrowers through August 8, 2020. The Company began accepting applications from qualified borrowers on April 3, 2020 and as of September 30, 2020 processed approximately 6,400 loans totaling over \$414 million in relief. PPP loans are considered to be pass rated loans. The loans have an interest rate of 1.0%, a two-year or five-year loan term to maturity, and a principal and interest payments deferred until the lender receives the applicable forgiven amount or ten months after the period the business has used such funds.

*NYC Small Business Continuity Fund*

New York City (“NYC”) was offering zero percent interest loans of up to \$75,000 to businesses located within one of the five boroughs of NYC, with fewer than 100 employees whose sales have decreased by 25% or more due to COVID-19. As of September 30, 2020, the company processed approximately 400 loans totaling over \$22 million. Due to the overwhelming interest, the program stopped accepting applications on April 8, 2020.