

## **Loan Review Summary**

 $\mathcal{E}$ NSIGHT CRC GROUP, LLC

Credit Risk Consulting

Review as of: Review Purpose: Review Date: Reviewer: 03/31/18 New Loan 04/21/19 Bob Dunlap

**Borrower Identity** 

Name: CRE INVESTMENT PROPERTY LLC Type: Newly-Formed Entity

Business: Holds title to the collateral property

**Loan Information** 

Information for Loan #: 6000001 Bank Risk Grade: 3.00 Pass Grade

Original Amount: \$2,250,000 Date Opened: 06/15/17 Original Maturity: 06/15/22

Current Balance: \$2,219,050 Committed Exposure: \$2,219,050

Original Purpose: To finance a portion of the purchase price and tenant improvements for a partially owner-

occupied retail building in Raleigh, NC

Purchase Amount: \$2,500,000 Project Costs: \$500,000 Project LTC: 75.0%

Settlement Statement: Yes

Advance Terms: \$1,875,000 advanced at closing, with \$375M to be advanced per the Loan Agreement supported

by Bank inspections and at 75% of submitted invoices. Interest-only payments during the 6-

month renovation period, followed by P&I payments.

Interest Rate: 4.00% Type: Fixed

Loan Payment Type: P & I Amount: \$13,635 Amortization: 240 Months

Frequency: Monthly

Loan Payment Status: Current

Loan Officer: Mark Johns

Loan Approved: Yes Approver: Executive Loan Committee Appropriate Authority: Yes

Does the Loan Conform with Approval: Yes

**Collateral Information** 

Real Estate Collateral (P) RE Type: Partially Owner-Occupied

Description: FDOT on a 15,000 s.f. 5-bay free-standing retail building on 1.5 acres

Location: 8400 Six Forks Road City: Raleigh State: NC Zip: 27615

<u>Appraisals</u>

Date: 04/20/17 Type: "as-completed" MV Amount: \$3,000,000

Appraiser: Simpson Appraisal Services Approved Appraiser: Yes

Reviewed: Yes Accepted: Yes Orig LTV: 75.0%

Environmental Search: Phase I Environmental Findings: Insignificant Rec's Security Agreement: Yes Security Agreement Satisfactory: Yes

Flood Search: Yes Flood Zone: No

Hazard Insurance: Yes Amount: \$2,500,000 Exp Date: 09/30/18

Flood Insurance: N/A

Liability Insurance: Yes Amount: 1MM/1MM/2MM Exp Date: 09/30/18

Mortgage/DOT Date: 06/15/17 Amount: \$2,250,000 Assign of Rents: Yes Eff. Recording Date: 06/16/17

Title Verification Type: Policy Date: 06/15/17 Title Insurance Amount: \$2,250,000

Comments: The title policy effective date of 6/15/17 precedes the Recording Date of 6/16/17.

Creative Interior Design (Guarantor) will occupy 12,000 s.f. of the NRA, while a 5-yr. lease has been

executed with Piners Lock & Safe for the remaining 3,000 s.f.

Original LTV: 75.0%

Total Appraisal Value: \$3,000,000 Total Current LTV: 74.0%

## Borrower/Co-Borrower Financial Analysis

EIN: \*\*-\*\*\*6789 Name: CRE INVESTMENT PROPERTY LLC Type: Newly-Formed Entity

Year: 2017

Bank Pro Forma		Appraisal Pro Forma	
Gross Rental Income	\$315	Gross Rental Income	\$368
Effective Gross Income	\$300	Effective Gross Income	\$340
Operating Expenses	\$120	Operating Expenses	\$135
NOI	\$180	NOI	\$205
Debt Service	\$164	Debt Service	\$164
DSCR	1.10 X's	DSCR	1.25 X's

Loan Underwriter and Reviewer Generally Agree: Yes

Comments: The Creative Interior

The Creative Interior Design (owner-occupant) 10-yr. net lease for 12M s.f. at \$20/s.f. is below market, while the Piners Lock & Safe 5-yr. net lease is \$25/s.f. The Bank Pro Forma is based on actual lease terms, while the Appraisal Pro Forma is based on market rents. The Global Business DSCR of 3.48 X's below is based on Bank Pro Forma projected property NOI of \$180M plus Corp Guarantor Adjusted Cash Flow of \$818M; but when adding back prior occupancy rental expense, the actual pro forma Global Business DSCR would be 3.81 X's.

Global Business Cash Flow: \$998 Global Business Debt Service: \$287 Global Business DSCR: 3.48 X's

## **Guarantor Financial Analysis**

SSN: \*\*\*-\*\*-1895 Name: Ralph Tarrant Type: Individual

Guaranty Type: Specific Amount: Full

PFS Date: 12/31/17 Signed: Yes Current: Yes PTR Year: 2016 Signed: No Current: Yes

Financial Statement-Selected Entries('000)			
<u>Assets</u>		<u>Liabilities</u>	
Cash	\$45	Cash Collateral Loans	
Market Securities	\$125	Margin Loans	\$20
CVLI	\$95	Life Policy Loans	\$25
Annuities/Retirement		Other Notes Payable	\$75
Residences	\$875	Residence Mortgages	\$310
Wholly-Owned RE	\$1,200	Wholly-Owned Mtge	\$760
Part Int/Closely Held	\$2,500	Related Mortgages/NP	
Total Assets	\$5,230	Stated Net Worth	\$3,975
Unencum Liquid Assets	\$220	Adjusted Net Worth	\$585

Tax Return-Selected Entries('000)			
W2	\$225		
Schedule B	\$15		
Schedule D & Other Gains	\$45		
Schedule E Net Rental Y	\$15		
Schedule E - K-1's	\$660		
Depreciation Sch E-Rentals	\$19		
K-1 Distributions	\$200		
Est Personal Cash Flow	\$512		
DTI	15.7%		
·			

Bank Underwriting Calculation		
Personal Cash Flow	\$450	
Total Debt Payments	\$82	
DTI	18.2%	
Global DSCR	3.50 X's	

Schedule E - Rental	
Gross Rent	\$122
Interest	\$38
Depreciation	\$19
Net Income	\$15
Cash Flow	\$72

Credit Report - Yes	
Date	04/15/17
Score	805
Total Mo Payments	\$6,688

Loan Underwriter and Reviewer Generally Agree: Yes Financial Performance Trend: Stable

EIN: \*\*-\*\*\*\*1122 Name: CREATIVE INTERIOR DESIGN LLC Type: Operating Entity

Guaranty Type: Specific Amount: Full

Type of Financial: Tax Return - S Corp/Ptrshp Year: 2016 Signed: No Current: Yes

Balance Sheet-Selected Entries('000)			
<u>Assets</u>		<u>Liabilities</u>	
Cash/MS	\$320	A/P & OCL	\$675
Trade A/R	\$1,156	N/P LOC	\$700
Inventory	\$1,780	CPLTD	\$125
Total Current Assets	\$3,256	Total Current Liabilities	\$1,500
Fixed Assets - net	\$760	Term Debt	\$470
		Member Loan	\$250
Total Assets	\$4,305	Total Liabilities	\$2,220
Current Ratio	2.2 X's	Total Operating Leases	\$225
Intangible Assets	\$24	Book Capital Equity	\$2,085
Due From Shareholder	\$0	Due To Shareholder	\$250
Net Due Shareholder	\$250	Adj Tangible Capital/Eq	\$2,311
Debt to Adj TNW Ratio	1.0 X's	Cash Distribution	\$200
Net Cash Distribution			\$200

jnea. No Current. Ye	<u> </u>
Income Statement-FYE	
Revenue	\$7,425
Gross Profit	\$2,205
Interest	\$78
Depreciation/Amort.	\$85
Ordinary Y/Pre-Tax Y	\$675
Rent	\$320
Discretionary Owner Comp	\$225
Non-Deduct Expense	\$20
EBITDA	\$838
Debt Service	\$123
DSCR	6.81 X's
Funded Debt/EBITDA	1.55 X's
Adj Cash Flow	\$818
Adj Cash Flow DSCR	6.65 X's
Adj EBITDAR	\$938
FCCR	2.12 X's
Operating Leverage Ratio	1.62 X's

Bank Underwriting DSCR Calc		
Cash Flow/EBITDA	\$838	
DSCR	6.80 X's	
FCCR	2.25 X's	

Type: Joint/Spouse

Loan Underwriter and Reviewer Generally Agree: Yes

Financial Performance Trend: Improving

Comments:

Creative Interior Design is a retailer & installer of cabinets, bath & kitchen fixtures, flooring, carpet, wallpaper, draperies and other housing accessories.

2016 TR adjusted cash flow plus eliminated occupancy rent of \$275M totaling \$1,093M would have provided for a DSCR of 3.81 X's for the combined global business debt service of \$287M. After adjusting EBITDAR of \$1,158 for non-deductible expense of \$20M and distributions of \$200M, adjusted EBITDAR of \$938M provided for a satisfactory FCCR of 2.12 X's and Operating Leverage

Ratio of 1.62 X's.

SSN: \*\*\*-\*\*-1895 Name: Betty Tarrant

Guaranty Type: Specific Amount: Full

Spouse provides joint PFS &PTR with Borrower

<b>Credit Report - Yes</b>	
Date	04/15/17
Score	810

Comments:

Reviewer Calculation of Global Debt Service	vice Coverage	Ratio (in '000)	
Borrower Cash Flow	\$180	Borrower Debt Service	\$164
Corp. Guarantor(s) Cash Flow	\$818	Corp. Guarantor(s) Debt Service	\$123
Ind. Guarantor(s) Discretionary Income*	\$232	Ind. Guarantor(s) Debt Service**	\$80
* Adjusted for estimated income tax and cost of living		** Credit Bureau debt service	
Global Available Cash Flow	\$1,230	Global Debt Service	\$367
Reviewer Estimated Global Debt Service Ratio	3.3	5 X's	
Bank Global Debt Service Ratio	3.5	0 X's	
Loan Underwriter & Reviewer Generally Agree	Yes		

## **Summary Analysis of Risks to Repayment**

Repayment

Priority	Source	Description	Metric	Value
Primary	Rental Cash Flow	Pro forma based on the executed leases	DSCR	1.10 X's
Secondary	Guarantor Support	2016 PTR & 2016 BTR	Global DSCR	3.50 X's
Tertiary	Collateral Liquidation	Apr. 2017 "as-completed" MV	LTV	75.0%

Reg O Loan: No

**Document Exceptions** 

Description: Title policy date precedes the date of Critical: Yes Mitigated: No On Exception Report: No

recording of D/T

Comments: A Title Policy Endorsement reflecting an effective date of 6/16/17 should be obtained from the title

company.

Financial Exceptions

No Financial Exceptions

Loan Policy/Underwriting Exceptions

Description: Borrower projected DSCR of 1.1 X's is Symbol: Identified: Yes Authorized Approval: Yes

less than minimum UG of 1.2 X's

Mitigated: Yes Mitigation: Owner-occupant Guarantor provides for an FCCR of 2.12 Justified: Yes

X's.

Financial Covenants

Description: Minimum DSCR of 1.25 X's for combined Borrower & Corp. Tested: Yes In Compliance: Yes

Guarantor cash flow

Adequacy: Appropriate

Comments: The pro forma global business DSCR for 2016 was 3.81 X's.

Loan Weaknesses: Executed leases provide for a projected DSCR of 1.1 X"s for the Borrower.

Loan Strengths: Borrower pro forma & Corp Guarantor cash flow (after adjusting for eliminated prior occupancy

rent) provides for a projected global business DSCR of 3.81 X's. Global DSCR of 3.5 X's. LTV of

75%.

Loan Underwriting presentation: Thorough

and the Financial Analysis of the source of Repayment: Thorough

Loan Underwriting structural support: Moderate/Conservative

Comments on Loan Underwriting: The less than desirable primary source of repayment is satisfactorily

mitigated by the Corp. Guarantor support (FCCR of 2.12  $\times$ s). The financial

loan covenant requirement is appropriate and further supports the loan

structure.

Global Cash Flow Calc: Yes Stress Testing: Yes Level: Single-Level Test Is Adequate: Yes

Bank Risk Grade: 3.00 CRC Rec Grade: 3.00 Credit Grade Outlook: Stable

Credit Risk Comments: The RG of 3.0 is satisfactorily supported by the Corp. Guarantor's FCCR of 2.12 X's for

the 80% owner-occupied collateral property.

Significant Credit or Loan Structure Issues: No