

Northwest Regional Planning Commission

# NWRPC

*keeping your future as our focus*



**Northwest Wisconsin  
Business Development  
Corporation**

Financing Assistance For Job Creation



Northwest Wisconsin Regional  
Economic Development Fund



**Wisconsin Business  
Innovation Corporation**  
new technologies, new companies, new jobs



# About NWRPC and affiliates

**\$ Cover 10 counties in NW Wisconsin**

**\$ Over 10,927 square miles**

**\$ Approximate population 179,000**

**\$ As an advocate for Northwest Wisconsin, NWRPC is a leader, a coordinator, and an advisor. This is accomplished through implementation of our core functions of planning, community development, and economic development.**



# Objectives:

## “The Guiding Principles for Decision Making”

- \$ Mission lending uses a more creative process that typically does not fit a specific mold (more Jell-o than Bundt cakes)**
- \$ How to get loan manual policy imbedded into your loan committee members**
- \$ How to educate loan committee members about underwriting benchmarks**
- \$ Case Studies using niche funds**

# The Challenge

**\$ What is the magic behind your decision process?**

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# Decision Process Tactics for more Yes and Less Stress!



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# Loan Board Makeup

Northwest Regional Planning Commission

# NWRPC



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**Mission thread: To make good deals better**

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# Loan Board Makeup

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**\$ Loan Committee Responsible for SBA MRF**

**\$ Loan Committee three members: Chair, Vice Chair and Secretary/Treasurer of Exec. Cmte.**

# Loan Board Makeup



- \$ Loan Committee Responsible for 5 funds: EDA, USDA IRP I and II, USDA Tech Seed, HUD Emergency Mngmt**
- \$ Loan Committee eleven members from ten represented counties plus NWRPC representative**
- \$ Board of Directors from Original Member Agencies**
- \$ Responsible for the overall direction and oversight of NWBDC per state and federal statutes and by-laws**



# Loan Board Makeup



Northwest Wisconsin Regional  
Economic Development Fund



- \$ Loan Committee Responsible for consolidated and regionalized decommissioned funds from 2006 program**
- \$ Loan Committee seven members from seven represented counties who surrendered CDBG funds**
- \$ Board of Directors consists of NWRPC Exec. Committee**
- \$ Responsible for the overall direction and oversight of NWREDF per state and federal statutes and by-laws**

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# Loan Board Makeup



- \$ Loan Committee Responsible for EDA and USDA IRP**
- \$ Loan Committee is the seven WBIC Board of Directors**
- \$ The Board is responsible for developing policy and making final decisions regarding EDA RLF and USDA IRP loans**
- \$ High volume, emergent technologies (mfg., medicine)**

# Imbedding the Policy Manuals

- \$ Review manual(s) during Loan Committee orientation**
- \$ Set a standing agenda item to review specific policies (use feedback when updating policy manual)**

## Loan Policy as part of Loan Review

- \$ Include loan policies in loan review (memo, credit)**
- \$ Connect policy to the “why” of project importance**
- \$ Insert specific sections that correspond with essential policy requirements (EDA 2:1 match, job creation, etc.)**

# Imbedding the Policy Manuals

## Loan Policy as part of Loan Review: Specific Sections Examples

Are activities proposed eligible according to RLF Manual? Yes

### Why are RLF funds required?

- \* Documentation of financing gap
- \* Analysis that financing is not otherwise available at equivalent terms and conditions

Application Data			Match requirement
Funding Data	Private & Other Public Funds	RLF Funds	Ratio of Funds
Ratio of Private & Other Pub. \$ to RLF \$	\$87,000	\$45,000	1.93:1
EMPLOYMENT DATA		NUMBER OF JOBS	
Number of Jobs Created	2	Jobs Created/Retained requirement	
Number of Jobs Retained	6		
Total Jobs	8		
Cost per Job	Cost/Job	\$5,625	
<b>Comments:</b>	Basis for Retention: By having adequate equipment and inventory available to fulfill nationwide orders, staff numbers will need to be retained to operate machines and assess QC due to increased orders.		

# Imbedding the Policy Manuals

## Loan Policy as part of Loan Review: Specific Sections Examples

### SITE ANALYSIS:

**Date of Site Visit:** Multiple, Most recent April 19, 2019

**Photo taken?** No

**Comments:** Site is located in the City of Spooner in the NWRPC Business Enterprise Center

**ANY ENVIRONMENTAL CONCERNS:** No

**Comments:** None

**DAVIS-BACON APPLICABILITY:** None

**Comments:** Funds will be used for a debt refi /purchasing equipment requiring minimal installation

**NO-CREDIT ELSEWHERE:** Bank turndown letter on file

### CONDITIONS AND COVENANTS SUMMARY SHEET

Will cover eligible uses, rates, terms, amortization, repayment, collateral, guarantors, contingencies, disbursement of funds with match, job creation, financial collection period, no relocation, taxes paid, etc.

# Underwriting Benchmark Education

**\$ Include underwriting benchmarks in loan review  
(mention early and often)**

**DCR, LTV, Equity Injection, Experience, Global Debt Service, Credit Report/Score, Legal Issues, Current Taxes, Market Conditions, Project Strengths/ Weaknesses, Stress Testing**

**\$ Connect underwriting benchmarks to the “why” of project feasibility**

**\$ Create a summary sheet that explores the 5 (6) C’s of Credit (Capacity, Capital, Collateral, Conditions, Character and/or Contingencies) plus Project Need**

# Underwriting Benchmark Education

## \$ Sources and Uses Illustration

### SOURCES AND USES AND COLLATERAL

Loan # - Purpose: **NWBDC – Purchase Equipment**

Amount:	\$45,000	Disbursement Date:	07/15/2019
Fees:	\$20.00	Term (months):	84
Payment:	\$636.20	Amortization (months):	84
Payment Type:	P&I	Interest rate:	5.000% (Fixed)

Loan # - Purpose: **NWRPC – Purchase Equipment**

Amount:	\$5,000	Disbursement Date:	07/08/2019
Fees:	\$10.00	Term (months):	18
Payment:	\$289.04	Amortization (months):	18
Payment Type:	P&I	Interest rate:	5.000% (Fixed)

Guarantors: [REDACTED] (Personal) and [REDACTED] (Corporate)

<b>PROJECT'S FUND OBLIGATION SUMMARY:</b>	Amount	Monthly Repayment (\$)
NWBDC	\$45,000	\$636.20
NWRPC SBA MRF	\$5,000	\$289.04
EQUITY	\$82,000	N/A
<b>TOTALS</b>	<b>\$132,000</b>	<b>\$925.24</b>

# Underwriting Benchmark Education

## \$ Existing Superior Debt Sources

### EXISTING SUPERIOR DEBT OBLIGATIONS

<b>NWBDC 0233 Startup</b>	<b>1<sup>st</sup> GBSA</b>	<b>Remaining Bal.:</b>	<b>\$ 7,158</b>
Interest Rate:	4.000% (Fixed)	Payment Frequency:	Monthly
Matures:	01/01/2021	Payment Amount:	\$410.06
Original Awarded:	\$30,000		
<b>NWRPC SBA 80013 Startup</b>	<b>Shared 1<sup>st</sup> GBSA</b>	<b>Remaining Bal.:</b>	<b>\$21,005</b>
Interest Rate:	5.000% (Fixed)	Payment Frequency:	Monthly
Matures:	09/20/2022	Payment Amount:	\$592.13
Original Awarded:	\$35,000		



# Underwriting Benchmark Education

## \$ Create a Loan to Value Guideline with Explanations of Calculations for Collateral Purposes

### COLLATERAL

FFE (Current/New)	GBSA	RBF, Inc. 1 <sup>st</sup> GBSA, NWRPC 2 <sup>nd</sup> GBSA
Appraised value:	\$62,984	Max loan value (%): \$31,492 (50%)
Appraisal date:	08/19/2019	Senior debt: \$15,000
		Loan coverage: \$16,492

Inventory	GBSA	SAME AS ABOVE
Appraised value:	\$15,000	Max loan value (%): \$7,500 (50%)
Appraisal date:	08/19/2019	Senior debt: \$15,000
		Loan coverage: <b>-\$7,500</b>

	FFE/Inv.**	RBF, Inc. 1 <sup>st</sup>
Appraised value:	\$60,000	Max loan value (%): \$30,000 (50%)
Appraisal date:	08/19/2018	Senior debt: \$60,000
		Loan coverage: <b>-\$30,000</b>

COLLATERAL SUMMARY	Value of Collateral	Discounted Value	Lien Holder/ Position	Holder/ Amount	Remaining RLF Value
TOTALS	\$77,984	\$38,992	RBF, Inc./1 <sup>st</sup> GBSA NWRPC SBA/2 <sup>nd</sup> GBSA	\$30,000	\$8,992

Comments: LTV is 149%.

\*\*This analysis takes in global collateral summary, as it assumes full collateral coverage including [REDACTED] FFE and Inventory, even though [REDACTED]'s FFE/Inventory is not considered for this project and part of a different entity. However, global collateral is essential as the Regional Business Fund, Inc. has a 1st position GBSA against all [REDACTED] assets. Even though [REDACTED] does not hold the note of [REDACTED] this analysis considers the liquidation consequence of [REDACTED] and how it could impact [REDACTED] security valuation. This analysis allow for a liquidation value of \$30,000 of [REDACTED] assets in event of loan default, and taking \$30,000 worth of [REDACTED] valuation that would carry over the remaining balance due to RBF, Inc.'s 1<sup>st</sup> position GBSA.

### Guideline Percentage Factors and Explanation of Columns

Factors	
Equipment	50%
Accounts Receivable	70%
Inventory	50%
Commercial Real Estate	65%
Residential Real Estate	80%
Marketable Securities	80%
Vehicles/Boats	NADA
Cash	100%

### Columns

Reference for Value = Where the value was taken from, ie: appraisal, estimates, financial statements, etc.

% Fctr = Percentage factor used for liquidation

Liquidation Value = (Value of Collateral) X (% FCTR)

Lien/Holder Position = List all lien holder(s) and position(s) against the collateral, do not include NWBDC \$ amount

Lien/Holder Amount = Total \$ amount of all liens against the collateral, do not include NWBDC \$ amount

Remaining for NWBDC Collateral = (Liquidation Value) - (Lien Holder/Amount)

# Underwriting Benchmark Education

## \$ Personal Financials Illustration

### MANAGEMENT ANALYSIS

Please provide a complete listing of the business' present ownership of 20 % or greater and Management Key Personnel vital to the daily operation of the business.

NAME	TITLE	PERCENT OWNED
[REDACTED]	President/Owner	51%
[REDACTED]	Vice President/Owner	49%
Total		100%

**Comments:** Global Cash Flow: 5.29 (2019) Credit Score: 731 [REDACTED] 748 [REDACTED] (TU)  
 CCAP Search: None Property Tax: CURRENT

Personal Cash Flow (Annual)	
Statement Date	06/12/2019
Total Gross Income	\$117,995
Total Household Exp.	\$65,920
Cash Before Per DS	\$52,075
Personal Debt Service	\$20,580
Net Cash Flow	\$31,495

Personal Financial Statement	
Statement Date	06/12/2019
Cash Available	\$2,000
Total Assets	\$213,000
Annual Liabilities	\$20,580
Total Liabilities	\$159,500
Net Worth	\$53,500

Description of Major Assets/Liabilities:

Cash: \$2,000; Pers. R/E: \$118,000 (owe \$118,000); Retirement: \$28,000; Personal Property: \$25,000; Vehicles: \$40,000 (owe: \$25,000); Washburn Co. IDA Note ([REDACTED] Corp.): \$15,000

# Underwriting Benchmark Education

**\$ Use basic/templated narrative with graphs for the financial analysis**

<b>BORROWER FINANCIAL SUMMARY</b>					
Statement Date	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022
<b>INCOME STATEMENT</b>					
Gross Sales	\$190,263	\$202,557	\$221,365	\$234,914	\$249,833
Total Cost of Goods Sold	\$84,817	\$88,159	\$91,632	\$95,242	\$98,995
Gross Profit	\$105,446	\$114,398	\$129,733	\$139,672	\$150,838
Total Operating Expense	\$106,651	\$114,095	\$122,893	\$132,020	\$143,027
Net Profit	<b>-\$1,205</b>	\$303	\$6,840	\$7,672	\$7,811

Using the projected values, the business demonstrates that it will have more than adequate cash to meet the debt service:

## Cash Flow Analysis

	2019 (Adj. Proj)	2020 (Proj)	2021 (Proj)
Earnings Before Taxes	\$ 303	\$ 6,840	\$ 7,672
+ Depreciation and Interest	\$ 51	\$ 4,356	\$ 4,218
= Total Cash Flow Available for D/S	\$ 354	\$11,196	\$11,890
Existing Debt Service (P & I)	\$ 0	\$ 0	\$ 0
+ New Debt Service (P & I)	\$ 51	\$ 2,206	\$ 3,159
= Total Debt Service	\$ 51	\$ 2,206	\$ 3,159

## RATIOS

Debt Service Ratio	6.94x	5.08x	3.76x
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As demonstrated, the business will have solid cash flow to service the traditional debt. Typically, a business in a cash heavy service industry would want to see a 1.50x minimum DCR to to service all expense obligations.

# Underwriting Benchmark Education

## \$ Stress Testing Illustration

Revenue Stress Testing	2019	2020	2021
<i>10% Less Revenue</i>			
Adjusted Revenue	\$65,502	\$85,058	\$99,407
Adjusted Net Income/EBITDA	\$24,626	\$33,326	\$40,851
DCR	1.64x	1.89x	2.33x
<i>20% Less Revenue</i>			
Adjusted Revenue	\$58,224	\$77,780	\$83,123
Adjusted Net Income/EBITDA	\$12,490	\$28,954	\$31,069
DCR	.83x	1.64x	1.77x

Additional stress testing of 10% and 20% still shows adequate DCR except for 2019. However, the addback savings of amortizing the credit card debt will save \$135 a month and secure the cash flow. The debt will be paid off rather than pay interest perpetually. Again, this model does not include adjusting any expenses to reflect revenue and earnings while sales growth lags behind.

# Case Studies: niche funds



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# The Solution

**\$ How are you going to refine the science so you rely on less magic within your decision process? What do you do well now?**



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# Thank you!

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