LUMENT

USDA

Business and Industry Program

HOW IT WORKS

USDA bolsters a project's private credit structure through the guarantee of quality loans which provides access to an active secondary market for B&I guaranteed loans. The program is effectively not a construction funding mechanism because the B&I guarantee is typically not in place until the completion of construction. Hence it should be considered a permanent debt funding mechanism.

PROPERTY TYPE	Group housing, specialty hospitals, assisted living, memory care, skilled nursing, outpatient and urgent care facilities.
MAXIMUM LOAN AMOUNT	Generally limited to $10 million ($25 million under limited circumstances) and preferences given to loans at and below $5 million. Maximum loan-to-cost/value is normally 80%.
GUARANTEE	• Up to 80% for projects $1MM - $5MM. • Up to 70% for projects $5MM - $10MM. • Up to 60% for projects greater than $10MM.
BORROWER'S EQUITY AND COLLATERAL	A new start-up business should have a start-up balance sheet tangible book equity of 20 - 25% (appraisal surplus and subordinated debt will not be included as equity items). Borrowers with a history of proven successful operations must have a minimum of 10% tangible balance sheet equity. Larger amounts may be required. The collateral must be sufficient to protect the interest of the lender and USDA. The discounted collateral value must be at least equal to the loan amount. Exceptions could be considered for businesses that are primarily cash flow oriented and the cash flow is supported by a successful and documented financial history. Generally, personal guarantees will be required.
DEBT SERVICE COVERAGE	Minimum 1.2x.
INTEREST RATE	Fixed or variable (Quarterly reset is maximum frequency). Determined by the lender and borrower and subject to USDA review and approval.
MAXIMUM TERM/AMORTIZATION	Up to 30 years; reflective of useful life of encumbered asset.
GUARANTEE FEE	One-time fee of 3% of the guaranteed loan amount payable at closing. Annual renewal fee of .25%.
USES	• B&I can be utilized for the new construction or substantial rehabilitation of senior housing facilities in rural cities up to a population of 50,000, but priority is given to applications for loans in rural communities of 25,000 or less. • B&I can provide loan guarantees for refinance transactions. • B&I is available to both for-profit and nonprofit organizations.
ASSUMABILITY	Loans may be assumed with lender and USDA approval.
PREPAYMENT PROVISIONS	• A 10-year lockout followed by prepayment penalty at par, or • Commonly a period of prepayment prohibition will be followed by a period of declining prepayment penalties (e.g., 2 year prohibition then 8% penalty, 7%, 6%, etc. declining each loan year until the penalty reaches zero), or • A five-year lockout followed by prepayment period with a penalty through at least year 10.
ESCROWS	Generally required for real estate taxes, insurance and replacement reserves.
FEES & EXPENSES	Borrower is responsible for approximately $20,000 in due diligence fees. At time of closing, these fees and all other closing costs may be included in the loan amount.
TIMING	120 days or more dependent on borrower readiness and transaction complexity.
POST-CLOSING REPORTING	Annual audited financial statements are usually required.

In its prequalifying review, Lument will attempt to estimate both the loan amount and the fees and costs associated with the transaction. Actual loan amounts and actual fees and expenses may vary from the prequalifying estimates. A prequalifying estimate is not a commitment to make a loan.