

# How to Craft an Effective Commercial Loan Write-Up

Presented by: Osburn & Associates, LLC

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# **How to Craft an Effective Commercial Loan Write-Up**

## **I. Introduction: The “Credit Memorandum” aka**

**A. Loan Write-Up**

**B. Loan Presentation**

**C. Credit Report**

**D. Credit Approval Document**

**E. Standard Credit Memorandum**

**Polling Question # 1:**

**Which of the following is the most common “title” for a credit memorandum?**

- A. Loan Write-Up**
- B. Loan Presentation**
- C. Credit Report**
- D. Credit Approval Document**

## **II. Credit Memorandum:**

### **A. Types/ Styles:**

**1. “Term Paper”**

**2. “Box” Approach**

**3. Combination**

### **B. Length**

**Can the length of the credit memorandum lower or mitigate the risk?**

### **C. Content vs. Technical Writing**

### **III. Credit Memorandum: Necessary Components**

**A. Many and Varied!**

**B. Format:**

- 1. Front Page: Contact and relationship information**
- 2. The Request (Structure-Terms, Pricing, Conditions, etc.)**
- 3. Financial Analysis: Key Ratios, Cash Flows, Collateral Assessment**
- 4. Management Assessment (Marketing, Financing, Management)**
- 5. Risk Assessment (Mitigation of Risk) (Summary, Conclusion)**

## **IV. Financial Analysis Section of the Credit Memorandum:**

### **“Five” Key Ratios**

**A. Liquidity: Working Capital, Current Ratio, Quick (Acid Test) Ratio**

**B. Activity: A/R, A/P, and Inventory Turnover**

**C. Leverage: Debt/Equity Ratio**

**D. Operating Performance: Common-Size the Income Statement**

**E. Cash Flow: EBITDA Business Cash, Personal Cash Flow, and  
“Global” Cash Flow**

## **Polling Question # 2:**

**LALOC stands for:**

- A. Liquidity, Activity, Leverage, Operating Performance, and Credit Analysis**
- B. Liquidity, Activity, Leverage, Operating Performance, and Cash Flow**
- C. Liquidity, Activity, Leverage, Operating Performance, and Cash Conversion Cycle**
- D. Liquidity, Activity, Leverage, Operating Performance, and Current Ratio**

## V. The “Altman” Z-Score (Bankruptcy Predictor)

A. A Bankruptcy Predictor: But it is only a predictor!

B. Historical Background

Developed in late 1960's by NYU Professor Edward Altman, hence sometimes referred to as the “Altman” Z-Score

C. Why the “Altman” Z-Score?

Key Ratio Analysis: The ratios are unique and often tell a different story about a firm's financial health. At times, they even appear to contradict each other

## **V. The “Altman” Z-Score (Bankruptcy Predictor) Model (Continued):**

### **Combines “Five” Key Ratios Into A Single Score**

**The Z-score Formula:**

**Here is the formula (for manufacturing firms), which is built out of the five weighted financial ratios:**

$$\text{Z-Score} = 1.2A + 1.4B + \underline{3.3C} + 0.6D + 1.0E$$

**Where:**

**A = Working Capital/Total Assets**

**B = Retained Earnings/Total Assets**

**C = Earnings Before Interest & Tax/Total Assets**

**D = Market (Book) Value of Equity/Total Liabilities**

**E = Sales/Total Assets**

## **V. Z-Score (Bankruptcy Predictor) Model (Continued):**

**Bankruptcy  
Characteristics:           0-1.80**

**Gray Zone:               1.81-3.00**

**Non-Bankruptcy  
Characteristics:       Over 3.00**

## **VI. Assessment of Company's Strategic Plan i.e. Assessing the Risk of Management's Ability to Lead and Guide the Company**

### **A. Marketing:**

1. **The Target Market:** The focus of the company's marketing efforts!

2. **The Marketing Mix:** (The Four Ps of Marketing):

a. Product

b. Place

c. Price

d. Promotion (Advertising/Personal Selling)

3. **Life Cycle:** Birth, Growth, Maturity, Decline, Re-Birth

4. **Market Continuum:**

Perfect  
Competition

Monopolistic  
Competition

Oligopoly

Pure  
Monopoly

**Polling Question # 3:**

**The Four Ps of Marketing consists of:**

- A. Product, Place, Price, Promotion**
- B. Product, Place, Price, Promotional**
- C. Product, Place, Price, Personal Selling**
- D. Product, Place, Price, Productivity**

**VI. Assessment of Company's Strategic Plan i.e. Assessing the Risk of Management's Ability to Lead and Guide the Company (Continued):**

**B. Financing:**

- 1. Accounting System**
- 2. Taxes**
- 3. Bank/ Trade Credit Relationships**

**C. Management:**

- 1. People and Processes**
- 2. Succession Plan**

## **VII. Risk Assessment (Mitigation of Risk) (Summary, Conclusion)**

**A. Strengths/ Weaknesses**

**B. Underwriting Summary**

**C. SWOT Model (Strengths, Weaknesses, Opportunities, Threats)**



**VIII. Examples of Credit Memorandums:**

**A. Exhibit # 1 (Business, Personal, Global, Projected Cash Flow)**

**B. Exhibit # 2 (Decision Scoring Matrix)**

**C. Exhibit # 3 (Detailed Loan Write-Up)**

## **IX. Using the Credit Memorandum in “Oral” Loan Presentations**

### **Loan Committee Dynamics:**

### **Clear, Concise, and Motivating Presentations**

#### **1. What are the Components of the Presentation?**

**Technical versus Management**

#### **2. Length of Presentation**

#### **3. Style of Presentation**

#### **4. Motivating the Audience**

## **X. Conclusion: How to Craft an Effective Commercial Loan Write-Up**

**A. Different Types/ Styles/ Length**

**B. Necessary Components-The Basics!**

**C. Financial Analysis vs. Management Analysis**

**D. Beyond the “Write-Up” i.e. What are we really trying to communicate?**

**E. Loan Presentations: “Summarizing” the Loan Write-Up!**

# EXHIBIT # 1

Officer Initials \_\_\_\_\_

\_\_\_\_\_  
Directors' Loan Committee Approval

(date)

Prepared by: \_\_\_\_\_

## LOAN REQUEST #1

Date: 09/01/15

### Summary

Borrower Name & Address: ABC Company  
John Doe  
1234 Main St.  
Podunk, OH 43210

Co-Borrower Name & Address:

Amount: \$401,000

Term: 15 Years

Rate: 4.5% 1st 5 yrs. Then P + 1/2%  
every 5 yrs w/ 4.5% floor

Charges: \$250 + OOP

Purpose: Car wash equipment at gas station

Payment: P & I Monthly (\$4,156)

Collateral: 1st mtg. on 10.25 acres on corner of US 66 & Rt. 100

Primary source of Repayment: Business Income  
Secondary source of Repayment: Liquidation of Collateral

Policy Exceptions: None

Grade: C-1 Satisfactory

Statement Date: 12/31/14

Officer Initials                     

                     Directors' Loan Committee Approval

(date)

Prepared by:                     

## LOAN REQUEST #2

Date: 09/01/15

### Summary

Borrower Name & Address:           ABC Company  
  John Doe  
  1234 Main St.  
  Podunk, OH 43210

Co-Borrower Name & Address:

Amount:                                 \$465,000

Term:                                     20 Years

Rate:                                    4.5% 1st 5 yrs. Then P + 1/2%  
  every 5 yrs w/ 4.5% floor

Charges:                                \$250 + OOP

Purpose:                                 Build car wash at gas station.

Payment:                                P & I Monthly (\$2,942)

Collateral:                             1st mtg. on 10.25 acres on corner of US 66 & Rt. 100

Primary source of Repayment:       Business Income  
Secondary source of Repayment:     Liquidation of Collateral

Policy Exceptions:                    None

Grade:                                 C-1 Satisfactory

Statement Date:                      12/31/14

Officer Initials                     

                     Directors' Loan Committee Approval

(date)

Prepared by:                     

## LOAN REQUEST #3

Date: 09/01/15

### Summary

Borrower Name & Address:           ABC Company  
  John Doe  
  1234 Main St.  
  Podunk, OH 43210

Co-Borrower Name & Address:

Amount:                                   \$100,000

Term:                                      12 Months

Rate:                                      Prime Daily Float  
  4% floor

Charges:                                 \$250 + OOP

Purpose:                                    Operating LOC (Replacing OFBC line)

Payment:                                 Monthly Interest

Collateral:                               ABA of ABC Company

Primary source of Repayment:        Business Income  
Secondary source of Repayment:      Liquidation of Collateral

Policy Exceptions:                     None

Grade:                                    C-1 Satisfactory

Statement Date:                        12/31/14

## Business Financial Statement Review - Comments

### Background:

ABC Company and John Doe have 3 loan requests. The first is \$401k for car wash equipment from Harrel's Car Wash Systems. The second request is for \$465k for the construction cost to build the car wash building next to the gas station. The car wash will be on a parcel that is free of liens and will be used as collateral. This car wash will have 1 automatic wash and 3 self-service bays. The self-service bays will be big enough to fit a semi tractor into. The third request is a \$100k operating line of credit to replace OFBC. The borrower did not make this request, but the lenders are trying to sever the relationship with OFBC.

In 1938, ABC Company was originally established as a distributor of Texaco fuels and lubricants. John Doe purchased the company in 1989 and has expanded the business to a larger demographic area, with a goal of focusing on the customers' requirements and prompt, efficient service. Based in Podunk, OH and servicing western Ohio, ABC Company is a distributor of fuels, as well as commercial and industrial lubricants. They are a distributor for Idemitsu Lubricants America, Shell, Pennzoil, Wolf's Head, Houghton, Tribology Tech-Lube, Camco and Global Lubricants. ABC specializes in bulk industrial, metal working, automotive, commercial, agricultural and food industry lubricants.

ABC's full service Shell station is conveniently located on the east side of Tiffin at the northwest corner of US Route 66 and State Route 100. They have a large, easily accessible location that offers two easy-access, well lit fueling areas including a separate island for gasoline customers and one for diesel and truck patrons. The car wash will have unique, oversized self service bays that will be able to wash big trucks and semi tractors. The self service bays will accept credit cards.

### Balance Sheet Trends:

ABC had \$962k in total assets at the end of 2014; slightly down from \$985k in 2013. Current assets are \$497k at year-end 2014, down from \$542k in 2013. Total liabilities at year-end 2014 were \$556k; down from \$687k in 2013. Current liabilities at the end of 2014 were \$139k; down from \$174k in 2013. Equity increase from \$299k in 2013 to \$406k in 2014. ABC's debt-to-worth ratio is 1.37.

Working capital for ABC Company is \$357,292 and the current ratio is 3.57.

John Doe has total assets of \$2.6M. \$1.5M of his asset base is John's ownership of ABC Company. John has \$4k in liquid assets. He also has \$643k in total real estate. His total liabilities are \$219k, of which 206k is a mortgage on his personal residence in Podunk, OH.

### Earnings Trends:

ABC's gross sales have been very consistent over the last three years. 2014 sales were \$9.26M; up from \$8.83M in 2013 and \$8.96M in 2012.

The gross profit margin in 2014 was 12%, up slightly from 2013 at 11% and 2012 at 10%. Net profit margin in 2014 was 3%, up considerably from 2013 and 2012 at 1%.

Historic cash flow for ABC Company has been trending positive in the last three years. There was \$103k net available in 2014. In 2013 net available was \$58k and in 2012 it was \$5k. Projected cash flow for 2015 was ran using multiple scenarios. With no income in 2015, but realizing all debt plus requested debt, there is \$18k net available for a DSC of 1.09. Projected 76% of anticipated income gives ABC \$123k net available, or a DSC of 1.61. At 88% income the net available is \$139k with a DSC of 1.69 and at 100% anticipated income the net available is

### Closing conditions:

1. Insurance on all collateral with [REDACTED] listed as loss payee
  2. Execute all required legal documents
  3. Annual financial statement and tax returns
- [REDACTED]

**Tax Return & Internal Reports**

	John Doe	ABC Company
Prepared	4/21/2015	12/31/2014
Assets	\$2,601,458	\$962,088
Liabilities	\$219,082	\$556,150
Equity	\$2,382,376	\$405,938

Debt to Worth            0.09                            1.37

Current Outstanding XXXXXXXXXX Debt

Note No.	Current Balance	Available Credit	Collateral	Purpose	Maturity Date
123456	\$ 423,627	\$ 376,373	ABA of ABC Company	Operating LOC	4/1/2016
<b>Total</b>	<b>\$ 423,627</b>	<b>\$ 376,373</b>			

New Sutton Debt                            \$            **966,000**                            Total Exposure \$ 1,766,000

	Current Balance	12 Month Average Balance
123456	\$52,689	
12345	\$6,985	
<b>Total</b>	<b>\$59,674</b>	<b>\$0</b>

**Use of New Loan Funds**  
 Car wash equipment at gas station  
 Build car wash at gas station.  
 Operating LOC (Replacing OFBC line)



Business Cash Flow Analysis

NAME: ABC Company

DATE: 9/1/2015

ANALYST: [REDACTED]

	Tax Return 2012	Tax Return 2013	Tax Return 2014	Projected 0 Income 2015	Projected 76% Income 2015	Projected 88% Income 2015	Projected 100% Income 2015
<b>GROSS SALES</b>	<b>\$8,956,936</b>	<b>\$8,833,790</b>	<b>\$9,256,624</b>				
Net Income	\$56,295	\$49,251	\$208,020				
Depreciation	\$63,848	\$140,781	\$43,194				
Interest	\$50,217	\$29,897	\$32,155				
Income Before Adjustments	\$170,360	\$219,929	\$283,369	\$0			
Adjustments: FIT	(\$6,480)	(\$2,790)	(\$64,378)				
Adjustments: Dividends	\$0	\$0	\$0	\$0			
Adjusted Net Income	\$163,880	\$217,139	\$218,991	\$218,991	\$324,128	\$340,200	\$358,321
Debt Payments:							
OFBC Truck		\$11,712	\$11,712	\$11,712	\$11,712	\$11,712	\$11,712
OFBC LOC \$100K @ 5%	\$5,000	\$5,000	\$5,000	\$0	\$0	\$0	\$0
Yard Card		\$3,019	\$0	\$0	\$0	\$0	\$0
5/3 Bank		\$39,712	\$0	\$0	\$0	\$0	\$0
Ally		\$9,348	\$9,348	\$9,348	\$9,348	\$9,348	\$9,348
Huntington Pd. Off		\$0	\$0	\$0	\$0	\$0	\$0
US Bank		\$25,440	\$25,440	\$25,440	\$25,440	\$25,440	\$25,440
First Citizens		\$64,464	\$64,464	\$64,464	\$64,464	\$64,464	\$64,464
Proposed LOC \$100K @ 5%				\$5,000	\$5,000	\$5,000	\$5,000
Proposed Equip.				\$49,872	\$49,872	\$49,872	\$49,872
Proposed Building		\$0	\$0	\$35,292	\$35,292	\$35,292	\$35,292
Total Debt	\$158,695	\$158,695	\$115,964	\$201,128	\$201,128	\$201,128	\$201,128
Net Available from Business	\$5,185	\$58,444	\$103,027	\$17,863	\$123,000	\$139,072	\$157,193
Debt Service Coverage	1.03	1.37	1.89	1.09	1.61	1.69	1.78

# Personal Cash Flow Analysis

NAME: John Doe

DATE: 9/1/2015

ANALYST: [REDACTED]

Credit Score: 781

	Tax Return 2012	Tax Return 2013	Tax Return 2014	Projected 2015
Wages	\$44,800	\$45,600	\$60,700	
Interest Income	\$4,871	\$4,871	\$4,871	
Dividend Income	\$0	\$0	\$0	
Schedule C Income	\$0	\$6,186	\$8,992	
Interest	\$0	\$0	\$0	
Depreciation	\$0	\$0	\$0	
Schedule E Income	\$17,685	\$17,955	\$14,816	
Interest	\$0	\$0	\$0	
Depreciation	\$1,619	\$1,519	\$708	
Distributions	\$0	\$0	\$0	
Income Before Adjustments	\$68,975	\$76,131	\$90,087	
Adjustments: New Rental Income				
Adjustments: FIT	(\$3,536)	(\$5,308)	(\$12,165)	
Adjusted Net Income	\$65,439	\$70,823	\$77,922	\$77,922
Debt Payments:				
Honda Fin. Auto			\$2,496	
Sheffield Fin.			\$1,884	
Ally Fin. Auto			\$9,336	
CC's \$35/ Mo.			\$420	
Sallie Mae			\$2,808	
OFBC Mtg.			\$15,204	
Proposal		\$0	\$0	
Total Debt	\$32,148	\$32,148	\$32,148	\$32,148
Personal Net Available	\$0	\$33,291	\$38,675	\$45,774
Personal Debt Service Coverage	#DIV/0!	2.04	2.20	2.42
Family Living Adjustment	\$10,000	\$10,000	\$10,000	\$10,000
Available after Family Living	(\$10,000)	\$23,291	\$28,675	\$35,774
Debt Coverage/Family Living	0.00	1.55	1.68	1.85

Global Cash Flow Analysis

DATE: 9/1/2015

ANALYST: [REDACTED]

Name:	Tax Return 2012	Tax Return 2013	Tax Return 2014	Projected 0 Income 2015	Projected 76% Income 2015	Projected 88% Income 2015	Projected 100% Income 2015
ABC Company	\$217,139	\$218,991	\$218,991	\$218,991	\$324,128	\$340,200	\$358,321
John Doe	\$65,439	\$70,823	\$77,922	\$77,922	\$77,922	\$77,922	\$77,922
<b>Adjusted Net Income</b>	<b>\$282,578</b>	<b>\$289,814</b>	<b>\$296,913</b>	<b>\$296,913</b>	<b>\$402,050</b>	<b>\$418,122</b>	<b>\$436,243</b>
<b>Debt Pmts</b>							
ABC Company	\$158,695	\$158,695	\$115,964	\$201,128	\$201,128	\$201,128	\$201,128
John Doe	\$42,148	\$42,148	\$42,148	\$42,148	\$42,148	\$42,148	\$42,148
<b>Debt Payments</b>	<b>\$200,843</b>	<b>\$200,843</b>	<b>\$158,112</b>	<b>\$243,276</b>	<b>\$243,276</b>	<b>\$243,276</b>	<b>\$243,276</b>
<b>Net Available</b>	<b>\$81,735</b>	<b>\$88,971</b>	<b>\$138,801</b>	<b>\$53,637</b>	<b>\$158,774</b>	<b>\$174,846</b>	<b>\$192,967</b>
<b>Debt Service Coverage</b>	<b>1.41</b>	<b>1.44</b>	<b>1.88</b>	<b>1.22</b>	<b>1.65</b>	<b>1.72</b>	<b>1.79</b>

**Project Cash Flow Analysis**

**NAME:** ABC Company

**DATE:** 9/1/2015

**ANALYST:** ██████████

	Projected 64% Income 2015	Projected 76% Income 2015	Projected 88% Income 2015	Projected 100% Income 2015
<b>GROSS SALES</b>	<b>\$134,010</b>	<b>\$162,152</b>	<b>\$184,264</b>	<b>\$209,390</b>
Variable Expenses	\$28,045	\$34,180	\$38,612	\$43,820
Self Serve Variable Expenses	\$8,525	\$10,315	\$11,722	\$13,320
Fixed Expenses	\$12,000	\$12,520	\$12,720	\$12,920
<b>Total Expenses</b>	<b>\$48,570</b>	<b>\$57,015</b>	<b>\$63,054</b>	<b>\$70,060</b>
<b>Adjusted Net Income</b>	<b>\$85,440</b>	<b>\$105,137</b>	<b>\$121,210</b>	<b>\$139,330</b>
Debt Payments:				
Proposed-equipment	\$49,872	\$49,872	\$49,872	\$49,872
Proposed-building	\$35,292	\$35,292	\$35,292	\$35,292
<b>Total Debt</b>	<b>\$85,164</b>	<b>\$85,164</b>	<b>\$85,164</b>	<b>\$85,164</b>
<b>Net Available from Business</b>	<b>\$276</b>	<b>\$19,973</b>	<b>\$36,046</b>	<b>\$54,166</b>
<b>Debt Service Coverage</b>	<b>1.00</b>	<b>1.23</b>	<b>1.42</b>	<b>1.64</b>

Break Even

## Collateral Analysis - Term

Collateral Description	Gross Value	% of Value	Loan Value	Other Non-SSB Lien	Net Value	Basis of Valuation
10.25 Acres at corner of 66 & 100		80.00%	\$ -		\$ -	To be appraised
	\$ -		\$ -		\$ -	
	\$ -		\$ -		\$ -	
	\$ -		\$ -		\$ -	
	\$ -		\$ -		\$ -	
	\$ -		\$ -		\$ -	
	\$ -		\$ -		\$ -	
	\$ -		\$ -		\$ -	

Total	\$ -				\$ -
Less: Total Aggregate Commitment					\$ 401,000
Collateral Cushion/(Deficit)					\$ (401,000)
Liquid Coverage Ratio					0.00

### Collateral Analysis Comments

# EXHIBIT # 2



**USE OF PROCEEDS**

	Proceeds from the [REDACTED] [REDACTED] program \$	From other loan programs or private sector lenders \$	Borrower Contributions to the project \$	Total Project Cost \$
Start-Up Costs	\$0.00	\$0.00	\$0.00	\$0.00
Working Capital	\$0.00	\$0.00	\$0.00	\$0.00
Leasehold Improvements	\$0.00	\$0.00	\$0.00	\$0.00
Purchase Commercial Real Estate	\$0.00	\$0.00	\$0.00	\$0.00
Construction (not Leasehold Improvements)	\$0.00	\$0.00	\$0.00	\$0.00
Buy / Install Furniture & Fixtures	\$0.00	\$0.00	\$0.00	\$0.00
Buy / Install / Repair Machinery & Equipment	\$0.00	\$0.00	\$0.00	\$0.00
Purchase Inventory & Supplies	\$0.00	\$0.00	\$0.00	\$0.00
Purchase an Existing Business	\$0.00	\$0.00	\$0.00	\$0.00
Refinance Existing Business Loans	\$0.00	\$0.00	\$0.00	\$0.00
Refinance Existing Business Credit Cards	\$0.00	\$0.00	\$0.00	\$0.00
Feasibility Studies	\$0.00	\$0.00	\$0.00	\$0.00
Training Costs	\$0.00	\$0.00	\$0.00	\$0.00
Other Business Purposes (please describe):	\$0.00	\$0.00	\$0.00	\$0.00
<b>TOTALS</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>

PROPOSED [REDACTED]							
Total Loan (\$)	\$0.00	Term (yrs)	7	Amortization (yrs)	7	Rate	6.00%
Estimated Annual Debt Service		\$0.00		Estimated Monthly P+ I Payment		\$0.00	
Describe / List Collateral Securing Loan:							

If another financing source is being utilized to help with this project, please indicate contact information for this lender along with a total loan amount, term, amortization and interest rate associated with this financing project.

Lender #01 Name							
Address				Telephone #			
City		Cty		State	CO	Zip	
Officer				E-mail			
Total Loan (\$)	\$0.00	Term	7	Amortization	7	Rate	6.00%

If the project involves the purchase, improvement or refinancing of commercial real estate, or leasehold improvements to commercial real estate, please provide the following information in connection with your primary property.

Address							
City		Cty		State	CO	Zip	

Full Time Equivalent (FTE) job creation and retention statistics.

# of Jobs as at the time of application for a [REDACTED]	0
Anticipated # of Jobs that will be saved by receiving a [REDACTED]	0
Anticipated # of NEW Jobs that will be created within two years of receiving [REDACTED]	0

**OVERVIEW OF PROJECT**

Overview

**PROJECT ELIGIBILITY**

**DESCRIPTION OF PROJECT COLLATERAL**

Business Assets

Commercial Real Estate

Personal Assets

Personal Real Estate

**SOURCE OF EQUITY INJECTION**



HISTORY OF APPLICANT BUSINESS / BUSINESSES

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PERSONAL CREDIT:

	Name	PFS Dated	Liquid Assets / R/E Assets	Total Assets / Total Liabilities	Onside NW / AGI	CR Date / CR Source	History / CR Score
(1)			\$0	\$0	\$0		_select type
			\$0	\$0	\$0	Experian	
(2)							_select type
(3)							_select type
(4)							_select type
(5)							_select type
(6)							_select type
(7)							_select type
(8)							_select type

Comments on Personal Credit:

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**SCHEDULE OF EXISTING DEBT AND OBLIGATIONS**

LINE(S) OF CREDIT or CREDIT CARDS PAYABLE TO	Original Amount	Original Date	Present Balance	Rate of Interest	Maturity Date	Monthly Payment	Security	Current/ Past Due
N/A	0.00		0.00	0.00%		0.00		_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
NOTE(S) or LOANS PAYABLE TO	Original Amount	Original Date	Present Balance	Rate of Interest	Maturity Date	Monthly Payment	Security	Current/ Past Due
N/A				0.00%				_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
				0.00%				_select
Total Present Balance =			\$0.00	Total Monthly =		0.00		
				Total Annual =		\$0.00		

**SCHEDULE OF ACCOUNTS RECEIVABLES AND PAYABLES**

Must reconcile with figures on the latest balance sheet.

<u>Aging</u>	<u>Accounts Receivable</u>	<u>Accounts Payable</u>
Under 30 days	\$ _____	\$ _____
30 to 59 days	\$ _____	\$ _____
60 to 89 days	\$ _____	\$ _____
90 to 119 days	\$ _____	\$ _____
120 days & over	\$ _____	\$ _____
Uncollectible	\$ _____	\$ _____
<b>TOTALS</b>	\$ _____	\$ _____

Comments on Debt and Payables / Receivables:

**AFFILIATES / POTENTIAL AFFILIATES (applies to EPC, any OCs and any individual borrowers):**

- Account for ALL businesses (excluding publicly traded ones) in which a 20% owner or guarantor holds an ownership interest.
- Account for ALL businesses for which any owner, officer, director, key employee or management entity has the power to exercise control, whether individually or through a combined identity of interest (such as family members, individuals or firms with common investments or firms that are economically dependent through contractual or other relationships).
- Account for ALL other potentially affiliated businesses consistent with CFR 121.103

Affiliate?	Company Name	Nature of Business	TIN	Individual	%	Title
					0.00%	
					0.00%	
					0.00%	
					0.00%	
					0.00%	
					0.00%	
					0.00%	
					0.00%	
					0.00%	
					0.00%	
					0.00%	

Comments:

**LOAN QUALIFICATION QUESTIONS:**

Q: Has the applicant small business applied for and been denied financing assistance from a commercial lender or any other Federal, state or local government financing programs?

Yes  No  [If "No", this application is not eligible for the Colorado Main Street Loan program]

Q: Has a site visit been completed to assist with the process of environmental due diligence?

Yes  No  N/A  [If "Yes", please report the date of the last site visit here \_\_\_\_\_ and paste a picture of the site location immediately below]

FINANCIAL SPREAD

BALANCE SHEET		Fiscal year ends: <input type="text" value="December 31st"/>		Statements are: <input type="checkbox"/> Audited <input type="checkbox"/> Unaudited	
	as @ <input type="text" value="01/31/13"/>	DEBIT	CREDIT	PRO FORMA	
<b>Assets</b>					
Cash	0.000	0.00	0.00	0.000	
A/R	0.000	0.00	0.00	0.000	
Inventory	0.000	0.00	0.00	0.000	
Other	0.000	0.00	0.00	0.000	
Total Current Assets	\$0.000	0.00	0.00	\$0.000	
Fixed Assets	\$0.000	0.00	0.00	\$0.000	
Other Assets	\$0.000	0.00	0.00	\$0.000	
<b>TOTAL ASSETS</b>	<b>\$0.000</b>	<b>0.00</b>	<b>0.00</b>	<b>\$0.000</b>	
<b>Liabilities</b>					
A/P	0.000	0.00	0.00	0.000	
Notes Payable ST	0.000	0.00	0.00	0.000	
Taxes	0.000	0.00	0.00	0.000	
Other	0.000	0.00	0.00	0.000	
SBA	0.000	0.00	0.00	0.000	
Total Current Liabilities	\$0.000	0.00	0.00	\$0.000	
Notes Payable LT	0.000	0.00	0.00	0.000	
SBA	0.000	0.00	0.00	0.000	
Other	0.000	0.00	0.00	0.000	
Total Liabilities	\$0.000	0.00	0.00	\$0.000	
Net Worth	\$0.000	0.00	0.00	\$0.000	
<b>TOTAL LIAB + NW</b>	<b>\$0.000</b>	<b>0.00</b>	<b>0.00</b>	<b>\$0.000</b>	

	SBC	RMA Averages		
		High	Medium	Low
Proforma Debt/Net Worth Ratio	0.000	0.00	0.00	0.00
Proforma Net Working Capital	\$0	\$0	\$0	\$0
Proforma Current Ratio	0.000	0.00	0.00	0.00

COMMENTS ON BALANCE SHEET

The following observations were noted:

FINANCIAL SPREAD (continued)

<b>PROFIT &amp; LOSS</b>						
Period ending:	Year -3 12/31/10	Year -2 12/31/11	Year -1 12/31/12	Interim 01/31/13	Projection Yr 1 12/31/13	Projection Yr 2 12/31/14
Total Revenue (net)	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
COGS	0.000	0.000	0.000	0.000	0.000	0.000
Gross Profit =	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Officers Comp.	0.000	0.000	0.000	0.000	0.000	0.000
Wages	0.000	0.000	0.000	0.000	0.000	0.000
Rent	0.000	0.000	0.000	0.000	0.000	0.000
Depreciation	0.000	0.000	0.000	0.000	0.000	0.000
Interest Expense	0.000	0.000	0.000	0.000	0.000	0.000
Other G&A Exp.	0.000	0.000	0.000	0.000	0.000	0.000
Total Expenses =	0.000	0.000	0.000	0.000	0.000	0.000
Other Income	0.000	0.000	0.000	0.000	0.000	0.000
Other Expenses	0.000	0.000	0.000	0.000	0.000	0.000
Income (before Tax)	0.000	0.000	0.000	0.000	0.000	0.000
Income Taxes	0.000	0.000	0.000	0.000	0.000	0.000
NET INCOME =	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000

<b>CASH FLOW ANALYSIS</b>						
Period ending:	Year -3 12/31/10	Year -2 12/31/11	Year -1 12/31/12	Interim 01/31/13	Projection Yr 1 12/31/13	Projection Yr 2 12/31/14
Operational Cash	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
+ Depreciation	0.000	0.000	0.000	0.000	0.000	0.000
+ Interest Expense	0.000	0.000	0.000	0.000	0.000	0.000
+ Rent Savings	0.000	0.000	0.000	0.000	0.000	0.000
+ Other:	0.000	0.000	0.000	0.000	0.000	0.000
+ Other:	0.000	0.000	0.000	0.000	0.000	0.000
= Available Cash	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000

<b>PRO-FORMA SCHEDULE OF FIXED OBLIGATIONS</b>						
	Year -3	Year -2	Year -1	Interim	Projection Yr 1	Projection Yr 2
- Pre-existing Debt	0.000	0.000	0.000	0.000	0.000	0.000
- New Debt	0.000	0.000	0.000	0.000	\$0.00	\$0.00
= Surplus / Deficit	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Coverage Ratio	0.000	0.000	0.000	0.000	0.000	0.000

COMMENTS ON PROFIT & LOSS / CASH FLOW ANALYSIS

Historical, interim and projected financial statements were reviewed. The following observations were noted:

**GLOBAL CASH FLOW ANALYSIS:**

Step 1 for Global Cash Flow Analysis: Identify Personal Discretionary Income:

<i>Borrower(s)</i>	Smith					<i>TOTALS</i>
Personal Income (AGI)	\$0					\$0.00
+ Other Income (Rental, etc.)						\$0.00
- Taxes (Actual or estimated)	\$0					\$0.00
- Living Expenses @	\$0	\$0	\$0	\$0	\$0	\$0.00
- Personal Debt: existing residence	\$0					\$0.00
- Personal Debt: other mortgages	\$0					\$0.00
- Personal Debt: other obligations	\$0					\$0.00
- Personal Debt: proposed new obligations	\$0					\$0.00
= AVAILABLE PERSONAL INCOME	\$0	\$0	\$0	\$0	\$0	\$0.00

Step 2 for Global Cash Flow Analysis: Calculate the Global Cash Flow Position:

Business Cash Flow (projected cash position)	\$0.00
+ Total Personal Discretionary Income	\$0.00
= TOTAL GLOBAL CASH FLOW	\$0.00
- Existing / Remaining Business Debt	\$0.00
- Anticipated New Project Debt [CO Main Street Loan]	\$0.00
= CASH SURPLUS or (DEFICIT)	\$0.00
= COVERAGE RATIO (Global Cash / Total Debt)	0.000

**GUARANTORS:**

	Type	Name of Individual / Entity	Net Worth	Type of Guarantee
(1)	_select status			_select type
(2)	_select status			_select type
(3)	_select status			_select type
(4)	_select status			_select type
(5)	_select status			_select type
(6)	_select status			_select type
(7)	_select status			_select type
(8)	_select status			_select type

**RECOMMENDATION / CONCLUSION**

Recommendation for approval

# Decision Scoring Matrix

Score	Personal Credit	Management	Collateral	Payment History	Repayment Ability
5	Clean personal credit for guarantors. No present derogatory items and no past derogatory items within the last five years.	Three years experience / ownership running this business or a similar one profitably.	The project is fully-collateralized with at least one first lien position on assets	On an <del>existing</del> business, all <del>current</del> lenders and <del>creditors</del> provide statements <del>or</del> letters indicate as <del>agreed</del> payment <del>history</del> .	Debt service coverage ratio (DSCR) of at least 1.30:1 or better in each of the last Financial Year Ends (FYE) AND interim statements, AND positive or stable trends.
4	Minor delinquencies current or within the last five years - no more than one item per guarantor.	At least one years worth of experience / ownership running this business or a similar one profitably.	The project is fully-collateralized with all junior lien position on assets	All <del>current</del> lenders and <del>creditors</del> provide statements <del>or</del> letters and there <del>is a</del> minimum of 2 late/ <del>missed</del> payments.	Two-to-three years with a DSCR of at least 1.10:1 or better AND a DSCR of at least 1.30:1 or better in the last FYE or most recent interim period.
3	Minor delinquencies current or within the last five years - no more than three items reported per guarantor.	Minimum of two years experience in this industry AND two years applicable management experience BUT has not owned this type of business before.	The project is not fully-collateralized, but there are personal assets pledged AND life insurance assigned.	All <del>current</del> lenders and <del>creditors</del> provide statements <del>or</del> letters and there <del>is a</del> minimum of 3 late/ <del>missed</del> payments.	DSCR of at least 1.15:1 or better in the last FYE or most recent interim period.
2	Minor delinquencies current or within the last five years - four or more items reported per guarantor.	Minimum of one years worth of experience in this industry OR minimum of one years applicable management experience.	The project is not fully-collateralized, but there are personal assets pledged OR life insurance assigned.	All <del>current</del> lenders and <del>creditors</del> provide statements <del>or</del> letters and there <del>is a</del> minimum of 4 late/ <del>missed</del> payments.	DSCR of at least 1.10:1 or better in the last FYE or most recent interim period.
1	Collections, charge-offs, tax liens or bankruptcy current or within the last five years with acceptable explanations.	No experience in this industry AND no applicable management experience.	The project is not fully-collateralized and no other outside assets are pledge and there is no life insurance.	The <del>business</del> is a start-up with <del>less than</del> two years <del>of history</del> .	Start-up or purely projection-based project. No historical cash flow support.
Totals	5	5	5	5	5

## Economic Impact:

One point can be added to indicate the economic development effects of the project.

jobs created or retained       access to services in a rural area       increased economic activity  
 expansion of a rural business       community benefit

Points added = 0 /5

TOTAL SCORE THIS PROJECT = 25

Interest Rate Guide:

EXCELLENT =	score of 17 or more [Prime + 2 3/4%]
VERY GOOD =	score of 15 to 16 [Prime + 3 3/4%]
GOOD =	score of 11 to 14 [Prime + 4 3/4%]
FAIR =	score 10 or less [Prime + 5 3/4%]

# EXHIBIT # 3

Commercial Real Estate Credit Presentation

Confidential

JUNE 11, 2014

BORROWER:

ADDRESS:

TIN:

GUARANTOR(S):

RELATIONSHIP MANAGER:

APPLICATION NUMBER:

RISK RATING:

4

NAICS CODE:

531120

BUSINESS/INDUSTRY:

Real Estate Leasing

ANALYST:

CUSTOMER SINCE:

1995

DEPARTMENT:

POLICY EXCEPTIONS:

Yes:  No

BORROWER'S CURRENT REQUEST(S) AND EXISTING LOANS:

ACTION ITEMS: NEW LOAN  RENEWAL  MODIFICATION  PORTFOLIO REVIEW  ACH

REQUEST SUMMARY (NUMBER EACH REQUEST):

ACTION REQUESTED:

- 1) This request is to fund the purchase a NOO CRE located at [REDACTED] in Tacoma. The customer is purchasing the property for \$2,550,000 and is putting approximately half down leaving their financing request at \$1,260,000.

The loan will be structured as a 15 year fully amortizing term loan fixed at 4.875% and will be charged a 1% loan fee.

The property was appraised by [REDACTED] June 23, 2014 and it returned a value of \$2,600,000 and it was reviewed and accepted by [REDACTED] on July 14, 2014. The appraised value of \$2,600,000 provides for a 48% LTV. Environmental clearance for this loan has been granted by [REDACTED] on June 6, 2014.

It should be noted that we are not requiring a personal guarantee by any of the principles of [REDACTED] to meet competitive pressures. As of 12/31/13 the customer has liquid assets of \$1,557M with \$1,533M in cash. The company is going to use approximately \$1,260M of their cash as a 50% down payment to acquire [REDACTED]. We will finance the property with a fully amortizing 15 year loan and the property has a DSCR of 1.65:1.00

Relationship	Borrower Name	Type (Term / Facility)	Action Items	Proposed Comm or Term Loan (000s)	Exist Comm or Term Loan Balance (000s)	Collateral	Amort /Maturity	Rate Index + Margin or Fixed Rate	Fee (\$ or %)
Direct	[REDACTED]	Term Rev	New Loan	1,260.0 500.0	1,260.0 500.0	1st DOT UCC	15 year 12 mo	1% CBBR, 5% floor	
Contingent									
Related									
Total Direct Debt				1,760.0	1,760.0				
Total Contingent Debt				0.0	0.0				
Total Related Debt				0.0	0.0				
Total Direct/Contigent/Related Debt				1,760.0	1,760.0				

DEPOSIT RELATIONSHIPS:

Borrower Name	# of Accounts	YTD Avg Bal (000's)	Related Deposit Accounts	# of Accounts	Related Accounts YTD Avg Bal (000's)
[REDACTED]	1	76.6			

LOAN REQUEST(S) (Number each facility to correspond to facilities under *Action Requested*.)

FACILITY #1: NOO CRE

**Borrower:** [REDACTED]  
**Purpose:** Purchase CRE located at [REDACTED] Tacoma WA  
**Term:** 180  
**Repayment:** Monthly principle and interest, fully amortizing  
**Prepayment Fee:** 5,4,3,2,1,3,2,1  
**Source(s) of Repayment:** *Primary: Collection of rental income*  
*Secondary: Liquidation of collateral*  
**Rate:** 4.875  
**Fees:** 1% or \$12,600  
**Collateral:** 1<sup>st</sup> DOT on [REDACTED] Tacoma WA  
**RE Collateral**  
**Reappraisal LTV:** 75%  
**Funding**  
**Mechanics:** Bank controlled, closing through escrow  
**Guarantor(s):** N/A

## EXCEPTIONS TO POLICIES/GUIDELINES (EXPLAIN EXCEPTION AND JUSTIFICATION):

## Exception #1:

██████████ - No guaranty from principal(s) of closely-held company (RRM, CA, LC)

**Justification:** The Company has banked with ██████████ since 1995 and has been operational since 1948. ██████████ is a real estate holding company that generated \$743M in rental income in 2012 which dropped to \$562M for 2013 due to a vacancy that has since been filled in November of 2013. The real estate holdings as of 12/31/13 are valued at \$2,457M and are owned free and clear. As of 12/31/13 the customer has liquid assets of \$1,557M with \$1,533M in cash. The company is going to use approximately \$1,260M of their cash as a 50% down payment to acquire ██████████. We will finance the property with a fully amortizing 15 year loan and the property has a DSCR of 1.65:1.00 and based on their large down payment our LTV will be 48%

**NOTE:** Approval authority (in parentheses) is defined as follows: LO – Loan Officer, RRM – Regional Retail Manager, CA – Credit Administration, LC – Loan Committee. The CCO and President have authority to approve all policy exceptions.

## CREDIT STRENGTHS/WEAKNESSES (PROVIDE DETAIL):

## STRENGTHS:

- ██████████ has been in operation since 1948.
- They have maintained their relationship with ██████████ for nearly 19 years.
- The business has 100% equity in the \$2,457M in buildings and \$240.0M in land holdings.
- ██████████ lists \$1,557M in liquid assets as of 12/31/13 of which \$1,533M is held as cash in brokered CD's at Scot trade. It should be noted that the customer is going to utilize approximately \$1,260M of their cash as the down payment on the purchase financed with this request. The board of directors is comprised of respected and successful individuals in the Tacoma business community, including ██████████.
- This loan will utilize a fully amortized 15 year term with a 48% LTV and a coverage ratio of 1.65:1.00

## WEAKNESSES:

- Risk associated with no guarantors. This can be mitigated by their longevity in business, overall financial health and the significant level of liquid assets held by the customer. ██████████ lists \$1,557M in liquid assets as of 12/31/13 of which \$1,533.0 is held as cash in brokered CD's at Scot trade. The customer also owns all of their existing Commercial real estate free and clear.
- Risk associated with the industry. The company derives their income from leasing the building that they own. Five lessees account for 96% of their current rental income.
  - This is mitigated by the fact that the business has no liens against any of the property held and the five leases are to well established companies, in a variety of different industries, and the leases are for a minimum of five years. In addition the property to be acquired is fully leased and has a coverage ratio of 1.65:1.00 and our loan will be fully amortized over 15 years.

## UNDERWRITING SUMMARY:

The property to be acquired is fully leased generating \$205,896 annually. In our appraisal analysis below I utilized a 5% vacancy, but it should be noted that the buildings primary tenant ██████████ Development has 9 years remaining on their lease with two 5 year options and ██████████ lease runs through 6/30/17. The annual payment of ██████████ alone is \$130,296 which is adequate to service our proposed payment of \$118,586.

The property is able to exceed our DSCR when stressed to 2% over our stated rate at 1.45:1.00.

UNDERWRITING MATRIX (000's):

INPUT PROPERTY TYPE HERE Ind/Ware	Policy	Secondary Market	Subject Loan
Loan Amount	10,000		1260
LTV	75		48%
DCR	1.25		1.65
Maturity/Call			180
Amortization	25		180
Rate (Rate Index + Spread = Rate)	FHLB +2-3.25%		4.875
Fee	.5%-1.25%		1.00%

APPRAISAL ANALYSIS:

APPRAISAL VALUES / LTV ANALYSIS

As Is Value	07/07/2014	\$ 2,600,000			
At Completion Value	(date)	\$ 2,600,000			
Stabilized Value	(date)	\$ 2,600,000			
Capitalization Rate (per Appraisal)		7.50%			
Loan Amount:		\$ 1,260,000			
Underwriting Rate:		4.88%			
Amortization/ Months:		180			
LTV - Stabilized Value:			Request	Policy	Exception (Y/N/NA)
LTV - At Completion Value:			48%	75%	n/a
			48%	75%	n/a

NOI ANALYSIS

	Appraisal (Stabilized)	Actual (Current)	Breakeven (%)
Rental Income	\$ 205,896	\$ 205,896	
Other Income			
Expense Reimbursements			
Total Gross Income	\$ 205,896	\$ 205,896	
Less Vacancy	5% \$ (10,295)	\$ (10,295)	
Effective Gross Income	\$ 195,601	\$ 195,601	
Less Operating Expenses - Property Management	\$ (6,000)	\$ -	
Less Other Expenses			
Net Operating Income	\$ 189,601	\$ 195,601	

DCR ANALYSIS

STABILIZED DCR/SENSITIVITY ANALYSIS

Interest Rate	Annual D/S	Cash Flow	DCR	Policy DCR	Exception (Y/N)
4.88%	\$118,586	\$71,015	1.60	1.25	N
5.88%	\$126,572	\$63,029	1.50	1.25	N
6.88%	\$134,848	\$54,753	1.41	1.25	N
12.83%	\$189,601	\$0	1.00	1.25	Yes

ACTUAL (AS IS) DCR

Interest Rate	Annual D/S	Cash Flow	DCR	Policy DCR	Exception (Y/N)
4.88%	\$118,586	\$77,015	1.65	1.25	N
5.88%	\$126,572	\$69,029	1.55	1.25	N
6.88%	\$134,848	\$60,753	1.45	1.25	N
13.43%	\$195,601	\$0	1.00	1.25	Yes

CAPITALIZATION RATE/EXPOSURE ANALYSIS

Appraisal Capitalization Rate	Capitalization Rate	Value	Proposed Loan LTV	Loan Amount @ 75% LTV	Exposure
	7.50%	\$2,528,016	50%	\$1,896,012	\$636,012
8.50%	\$2,230,602	56%	\$1,672,952	\$412,952	
9.50%	\$1,995,802	63%	\$1,496,852	\$236,852	
10.00%	\$1,896,012	66%	\$1,422,009	\$162,009	

LEASE SUMMARY:

UNIT	TENANT	UNIT SF	%	ANNUAL RENT/SF	RENT INCREASES	LEASE TYPE	TERM	COMMENCE DATE	EXPIRATION DATE	OPTIONS
1	[REDACTED]	20,150	47%	130,296	CPI - 3years	NNN	20 yr	04/01/2002	05/31/2022	2-5 year
2	[REDACTED]	23,096	53%	75,600	CPI -Annual	NNN	5 yr	07/01/2012	06/30/2017	n/a
			0%							
			0%							
			0%							
			0%							
TOTAL OCCUPIED		43246	100%							
TOTAL VACANT			0%							
TOTAL PROJECT		43246	100%							

PROJECT / APPRAISAL / ENVIRONMENTAL:

Neighborhood/Site/Improvements:

The subject property is located in the Port of Tacoma and it is an industrial parcel of 2.18 acres, improved with 2 light industrial structures with a GBA of 43,246 SF. Building 1 was constructed in three phases between 1974 and 1995 and contains a gross building area of 23,096 square feet. Building 1 consists of a mix of wood/metal framing with a mix of wood and metal exterior siding. Building 1 is referenced as being of average quality construction and rated in fair to average overall condition with a remaining estimated useful life of 20 years. Building 2 contains a gross building area of 20,150 square feet and was constructed in 1998. Building 2 is metal framed and has exterior metal siding. Building 2 was considered to be of good quality construction and rated in good overall condition, with a remaining estimated useful life of 35-40 years. The balance of the site is fully paved and has perimeter fencing. Building 1 is occupied by [REDACTED] on a 5 year lease that began in July of 2012. Building 2 is occupied by [REDACTED] on a 20 year lease that began in April of 2002.

Market Discussion:

The Port of Tacoma covers approximately 4,000 acres around Commencement Bay, a sheltered arm of the Puget Sound. The Port of Tacoma handles over \$36 billion in import/export annually. The subject property is located in the [REDACTED] Industrial Park in the Port of Tacoma in the center of a major transportation hub with access to both shipping and rail. The neighborhood is comprised of predominantly older structures, but has begun to revitalize over the last 5 years. Redevelopment has been spurred by recently completed and on-going roadway improvement projects in the area, which have enhanced accessibility of Port Facilities. The appraiser noted that the local industrial market appears to be thriving with limited vacancy within quality buildings in the area. The outlook for the industrial area at the Port of Tacoma appears favorable.

Appraisal Conclusion:

The three approaches used to estimate the value of the subject property resulted in the following estimates:

- Cost Approach: n/a
- Sales Comparison Approach: \$2,600,000
- Income Approach: 2,490,000 to \$2,665,000

Environmental:

An environmental review was completed by [REDACTED] and clearance was granted for the property. [REDACTED] reviewed a Phase I report from January 20, 2014 that was completed by Environmental Associates as well as our borrower and lender checklists.

Initially [REDACTED] was concerned about possible issues from an adjacent property. Two prior Phase I reports from 1996 and 2002 recommended a Phase II report be completed to assess any impacts from the adjacent property. [REDACTED] was able to speak with the environmental consultant who was responsible for the studies on the adjacent property to the south, who assured him that the property to south does not have any environmental impact on the subject property.

**BORROWER/GUARANTOR FINANCIAL INFORMATION:**

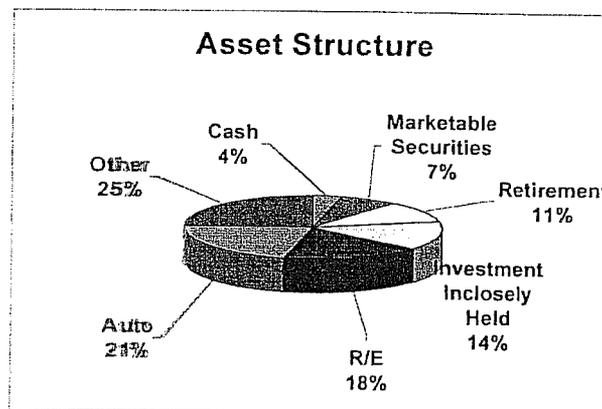
The borrower and/or guarantors provided personal statements with the following information:

(In 000's)	Borrower #1 12/31/13	Borrower #2 12/31/05	Borrower #3 12/31/05	Total Combined Balance
Liquid Assets**	\$ 1,557			\$ 1,557
Total Assets	\$ 2,504			\$ 2,504
Total Liabilities	\$ 162			\$ 162
Contingent Liabilities	\$ 500			\$ 500
Net Worth	\$ 1,842			\$ 1,842

\*\*Liquid assets include cash and marketable securities discounted at 67% and retirement plans discounted at 55%.

**GUARANTOR'S CASH FLOW PER THEIR TAX RETURNS:**

	Borrower #1 2013	Borrower #2 2006	Borrower #3 2006	Total Combined Balance
Sources of Cash	\$ 596			\$ 596
Uses of Cash	\$ 416			\$ 416
Total Cash Flow	\$179			\$ 179



**FINANCIAL COVENANTS:**

Financial Covenants	Test Freq	Current Standard	Actual as of 12/31/2013	YTD as of 04/30/2014	Complied Yes/No	Proposed Covenant
Min Working Capital						
Min Current Ratio						
Min Tangible Net Worth						
Max Leverage Ratio						
Min Debt Service Coverage Ratio	Annually		1.65		Yes	1.25
Out of Debt Covenant						

DEFINITIONS (all capitalized terms not expressly defined below shall be as defined by GAAP):

**COVENANT** **DEFINITION**  
**DSCR** "Debt Service Coverage Ratio" shall mean the Real Property's NOI divided by debt service, to be measured on a historical 12-month basis using the Real Property's year-end operating statement for the year immediately ended. "NOI" (net operating income) is defined as income generated from the Real Property's gross rental income, plus any other ordinary and customary income generated by the operation of the Real Property, such as late fees and parking income, less ordinary and customary operating expenses, including management expenses, but excluding income taxes, interest, depreciation and amortization, all as reasonably confirmed and approved by the Lender

**COVENANT COMPLIANCE:**

Compliance with existing covenants? Yes  No

If No, Action Recommended:

- Waive and Reset as Proposed:
- Waive and Reset as Proposed with compliance by:
- Forbear until:

**FINANCIAL REPORTING REQUIREMENTS:**

REPORT	FREQUENCY	PREPARED BY	DUE BY
Borrower Financial Statements	Annual	CPA	within 90 days of FYE
Rent roll on subject property	Annual	Borrower	within 30 days of years end
Borrower Tax Return			
Personal Financial Statements			

**CRA COMPLIANCE DATA COLLECTION:**

Loan Location (street address, City, State, Zip): [REDACTED] Tacoma WA

Loan Amount: \$1,260,000.00

Gross Annual Revenue Code\*: 1 - Rev. ≤ \$1,000,000

\*If a start up business enter 1; if enter 3 for "Not Known" tell why: Did not collect business revenue info.

	<u>Date</u>	<u>Source</u>
Source Document for Revenue Reporting:	12/31/13	2 - Co. prepared finls

CRA Community Development Code: 00 Loan does not have community development as the primary purpose

RISK RATING / APPROVAL RATIONALE (INDICATE JUSTIFICATION FOR OVERALL RATING):

- This loan is appropriately risk rated as a 4. The borrower is a property holding company that manages their own properties and prior to this purchase has owned and managed \$2,697M in buildings and properties that they own free and clear. The borrower is purchasing the subject property for \$2,550M and is utilizing \$1,260M of their own cash as a down payment which allows for a 48% LTV. In addition our loan structure is favorable utilizing a 15 year fully amortized structure and a coverage ratio of 1.65:1.00.

DDA & TREASURY MANAGEMENT PRODUCT OFFERINGS (PLACE AN "X" IN APPROPRIATE BOX):

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> ACH Debt Limit;    | <input type="checkbox"/> Credit Limit; | <input type="checkbox"/> Wire Transfer           |
| <input type="checkbox"/> Daylight Overdraft |  | <input type="checkbox"/> Controlled Disbursement |
| <input type="checkbox"/> Payroll            |  | <input type="checkbox"/> Sweep Products          |
| <input type="checkbox"/> Cash Concentration |  | <input type="checkbox"/> Zero Balance Accounts   |

SERVICES (PLACE AN "X" IN APPROPRIATE BOX):

- |  |  |
|--|--|
| <input type="checkbox"/> Deposits          | <input type="checkbox"/> International         |
| <input type="checkbox"/> Cash Management   | <input type="checkbox"/> Investments           |
| <input type="checkbox"/> Merchant Services | <input type="checkbox"/> On-Line Banking       |
| <input type="checkbox"/> Private Banking   | <input type="checkbox"/> Zero Balance Accounts |

ATTACHMENTS:

- Optimist Business Financial Spreads:
- Baker's Tax Analysis:
  - Personal Financial Statement Recap:
  - Cash Flow Recap:
- ROE Pricing Model:
- CRA Source Doc.:
- CRA Source Doc. faxed to Loan Ops (253) 272-1420

## STATEMENTS OF INCOME

For the years ended December 31, 2013 and 2012

	2013		2012	
	Amount	Percent to Revenue	Amount	Percent to Revenue
<u>Revenue</u>				
Rent	\$ 413,484		\$ 565,945	
Utilities and CAM	147,074		174,261	
Interest	1,722		3,173	
	<u>562,280</u>	<u>100.0%</u>	<u>743,379</u>	<u>100.0%</u>
<u>Expenses</u>				
Officer's Salaries	39,930	7.1%	39,930	5.4%
Payroll taxes	3,830	0.7%	3,667	0.5%
Utilities	151,407	26.9%	145,275	19.5%
Maintenance	24,294	4.3%	57,907	7.8%
Maintenance Salary	2,900	0.5%	2,730	0.4%
Taxes - property and other	85,194	15.2%	76,989	10.4%
Bank charges	202	0.0%	153	0.1%
Service contract	20,278	3.6%	19,674	2.6%
Depreciation and amortization - (Fife)	22,209	3.9%	21,853	2.9%
Depreciation and amortization - (Tacoma)	10,450	1.9%	10,221	1.4%
Insurance	22,425	4.0%	20,449	2.8%
Interest	1,438	0.3%	0	0.0%
Accounting fees	2,850	0.5%	2,625	0.4%
Bookkeeping	5,267	0.9%	5,357	0.7%
Legal fees	80	0.0%	860	0.1%

LEASE SUMMARY

	Building 1	Building 2
Tenant	[REDACTED] Metal Works & Erectors, LLC	[REDACTED] Development, LLC
GLA (SF)	23,096	20,150
% Office Allocation	16.6%	6.9%
% Warehouse Allocation	83.4%	93.1%
Space Use	Industrial	Industrial
Lease Commencement	7/1/12	4/1/02
Lease Duration	5 Years	20 Years
Lease Termination	6/30/17	3/31/2022
Current Monthly Rent	\$6,300	\$10,858
Blended Monthly Rent/SF	\$0.27	\$0.54
Annual Rent	\$75,600	\$130,296
Blended Annual Rent/SF	\$3.27	\$6.47
Expense Structure	NNN	NNN
Rent Escalators	CPI - Annually	CPI - Every 3 Years
Extension Options	1 - 5-Year Term	2 - 5-Year Terms

Statement Date	12-31-2011	%	12-31-2012	%	12-31-2013	%
Period Length	12 Months		12 Months		12 Months	
Analyst						
Auditor						
Statement Type	Compiled		Compiled		Compiled	

Income Statement

Sales / Revenue	781	100.00	743	100.00	562	100.00
Cost of Revenues / Sales	0	0.00	0	0.00	0	0.00
Gross Profit	781	100.00	743	100.00	562	100.00
Operating Expenses	402	51.47	440	59.22	416	73.96
Depreciation	35	4.48	32	4.31	33	5.80
General & Administrative	319	40.85	360	48.45	335	59.59
Officer Compensation	40	5.12	40	5.38	40	7.10
Lease & Rent Expense	8	1.02	8	1.08	8	1.48
Operating Profit	379	48.53	303	40.78	146	26.04
Other Expense/(Income)	0	0.00	0	0.00	0	0.00
EBIT	379	48.53	303	40.78	146	26.04
Interest Expense	0	0.00	0	0.00	1	0.25
Profit Before Tax	379	48.53	303	40.78	145	25.79
Taxes	0	0.00	0	0.00	0	0.00
Extraordinary Items	0	0.00	0	0.00	0	0.00
Net Income	379	48.53	303	40.78	145	25.79
Dividends	272	34.83	295	39.70	295	52.45
Adjustments	0	0.00	0	0.00	0	0.00
Retained Earnings	107	13.70	8	1.08	(150)	(26.66)

Statement Date	12-31-2011	%	12-31-2012	%	12-31-2013	%
Period Length	12 Months		12 Months		12 Months	
Analyst						
Auditor						
Statement Type	Compiled		Compiled		Compiled	

Balance Sheet

Cash and Equivalents	1,536	60.28	1,617	62.50	1,533	61.22
Acc Receivable Trade	3	0.12	3	0.12	3	0.13
Inventory	0	0.00	0	0.00	0	0.00
Other Curr Assets	26	1.02	16	0.62	21	0.84
Prepaid Expenses	26	1.02	16	0.62	21	0.84
<b>Current Assets</b>	<b>1,565</b>	<b>61.42</b>	<b>1,636</b>	<b>63.24</b>	<b>1,557</b>	<b>62.19</b>
Fixed Assets	983	38.58	951	36.76	947	37.81
Land	240	9.42	240	9.28	240	9.60
Buildings	2,429	95.33	2,429	93.89	2,457	98.13
Machinery & Equipment	2	0.08	2	0.08	2	0.06
Accumulated Depn (-)	(1,688)	(66.25)	(1,720)	(66.49)	(1,752)	(69.98)
Investments	0	0.00	0	0.00	0	0.00
Other Non Curr Assets	0	0.00	0	0.00	0	0.00
<b>Non Curr Assets</b>	<b>983</b>	<b>38.58</b>	<b>951</b>	<b>36.76</b>	<b>947</b>	<b>37.81</b>
<b>Total Assets</b>	<b>2,548</b>	<b>100.00</b>	<b>2,587</b>	<b>100.00</b>	<b>2,504</b>	<b>100.00</b>

Statement Date	12-31-2011	%	12-31-2012	%	12-31-2013	%
Period Length	12 Months		12 Months		12 Months	
Analyst						
Auditor						
Statement Type	Compiled		Compiled		Compiled	

Balance Sheet

Short Term Debt	50	1.96	81	3.13	137	5.47
Current Maturity LTD	50	1.96	31	1.20	31	1.23
Line of Credit - Bank	0	0.00	50	1.93	106	4.23
Accounts Payable	12	0.47	12	0.46	12	0.48
Other Curr Liabilities	1	0.04	1	0.04	1	0.04
Accruals	1	0.04	1	0.04	1	0.04
<b>Current Liabilities</b>	<b>63</b>	<b>2.47</b>	<b>94</b>	<b>3.63</b>	<b>150</b>	<b>5.99</b>
Long Term Debt	2	0.08	2	0.08	12	0.49
Long Term Capital Lease	2	0.08	2	0.08	12	0.49
Other Non Current Liabs	0	0.00	0	0.00	0	0.00
<b>Non Current Liabilities</b>	<b>2</b>	<b>0.08</b>	<b>2</b>	<b>0.08</b>	<b>12</b>	<b>0.49</b>
<b>Total Liabilities</b>	<b>65</b>	<b>2.55</b>	<b>96</b>	<b>3.71</b>	<b>162</b>	<b>6.48</b>
<b>Total Net Worth</b>	<b>84</b>	<b>3.30</b>	<b>84</b>	<b>3.25</b>	<b>85</b>	<b>3.38</b>
Common Stock	45	1.77	45	1.74	45	1.81
Paid In Capital	39	1.53	39	1.51	39	1.57
Other Equity	0	0.00	0	0.00	0	0.00
Accumulated R/E	2,399	94.15	2,407	93.04	2,257	90.14
Retained Earnings from I/S	107	4.20	8	0.31	(150)	(5.99)
Previous Balance	2,292	89.95	2,399	92.73	2,407	96.13
<b>Equity</b>	<b>2,483</b>	<b>97.45</b>	<b>2,491</b>	<b>96.29</b>	<b>2,342</b>	<b>93.52</b>
<b>Liabilities &amp; Equity</b>	<b>2,548</b>	<b>100.00</b>	<b>2,587</b>	<b>100.00</b>	<b>2,504</b>	<b>100.00</b>

**Commercial Real Estate Credit Presentation**

Confidential

Statement Date	12-31-2009	12-31-2010	12-31-2011	12-31-2012	12-31-2013
Period Length	12 Months				
Analyst					
Auditor					
Statement Type	Compiled	Compiled	Compiled	Compiled	Compiled

**Profitability Measures**

Gross Margin %	100.00	100.00	100.00	100.00	100.00
COGS %	0.00	0.00	0.00	0.00	0.00
Operating Expenses %	59.29	50.96	51.47	59.22	73.96
EBIT %	41.90	49.04	48.53	40.78	26.04
Operating Profit %	40.71	49.04	48.53	40.78	26.04
Net Profit Before Tax %	41.90	49.04	48.53	40.78	25.79
EBIT	282	382	379	303	146
EBITDA	317	417	414	335	179

**Growth Measures**

Revenue Growth %	(9.30)	15.75	0.26	(4.87)	(24.33)
Sustainable Growth	0.44	4.85	4.50	0.32	(6.02)
Operating Profit Growth %	(24.52)	39.42	(0.79)	(20.05)	(51.68)
Net Income Growth %	(31.72)	35.46	(0.79)	(20.05)	(52.15)

**Coverage Measures**

Interest Cover	0.00	0.00	0.00	0.00	104.57
Effect Interest %	0.00	0.00	0.00	0.00	1.21
Debt Service Cover	0.00	0.00	14.49	6.90	5.36
Debt Payback Period	0.17	0.24	0.13	0.25	0.83
EBITDA DSC	0.00	0.00	12.94	6.70	5.52

**Efficiency Measures**

Days Receivable	0.00	18.74	1.40	1.47	2.14
Days Inventory	0.00	0.00	0.00	0.00	0.00
Days Payable	0.00	0.00	0.00	0.00	0.00
Working Capital (\$)	(16)	29	(9)	(9)	(9)
Working Capital (CA - CL)	1,248	1,379	1,502	1,542	1,407
Working Capital %	(2.38)	3.72	(1.15)	(1.21)	(1.55)
Asset Turnover	0.29	0.31	0.31	0.29	0.23
Quick Ratio	17.86	15.67	24.84	17.40	10.39
Current Ratio	17.86	15.67	24.84	17.40	10.39
Debt to Tangible Equity	0.05	0.05	0.03	0.04	0.07
Debt to Effective Tangible Equity	0.05	0.05	0.03	0.04	0.07

Statement Date	12-31-2009	12-31-2010	12-31-2011	12-31-2012	12-31-2013
Period Length	12 Months				
Analyst					
Auditor					
Statement Type	Compiled	Compiled	Compiled	Compiled	Compiled

**Return Measures**

RONA %	12.15	15.42	14.95	11.77	5.88
Average RONA %	12.26	15.92	15.12	11.86	5.78
Return on Equity % (Annualized)	12.44	16.08	15.26	12.16	6.19
Return on Assets % (Annualized)	11.90	15.34	14.87	11.71	5.85
Dividend Payout Rate %	96.45	71.20	71.77	97.36	203.38
Value Added	0	0	0	0	0
WACC %	0.00	0.00	0.00	0.00	0.00

**Leverage Measures**

Total Liabilities/Equity	0.05	0.05	0.03	0.04	0.07
Equity / Total Assets	95.61	95.44	97.45	96.29	93.53
Funded Debt to Equity	0.02	0.04	0.02	0.03	0.06
Bank Debt to Liabilities	0.53	0.89	0.80	0.86	0.92
Borrowed Funds	55	102	52	83	149

**Cash Measures**

Change in Net Debt	63	49	191	50	(150)
Cash After Operations	333	318	464	345	174
Net Cash After Ops	341	318	464	345	174
Net Cash Income	69	46	192	50	(123)
Cash After Debt Amortization	69	46	160	0	(154)
Marginal Cash Flow	102.38	96.28	101.15	101.21	101.55
Financing Surplus/(Requirements)	63	49	159	0	(182)

Loan Model For [REDACTED]  
Loan - [REDACTED]

Model Loan

Profit Summary

Item	Simulation	Booked	Difference (\$)	Difference (%)
<b>Relationship Profitability</b>				
Total Loan Balance	1,260,000.00	1,260,000.00	0.00	0.00 %
Total Loan Commitment	1,260,000.00	1,260,000.00	0.00	0.00 %
Total Deposit Balance	0.00	0.00	0.00	0.00 %
Total Average Deposit	0.00	0.00	0.00	0.00 %
ROE	13.95 %	14.37 %	-0.42 %	-2.92 %
ROA	1.67 %	1.72 %	-0.05 %	-2.91 %
Annual Net Income	16,808.04	17,319.48	-511.44	-2.95 %
Lifetime Net Income	107,851.75	111,133.44	-3,281.69	-2.95 %
Duration (M)	77	77	0	0.00 %
<b>Account Profitability</b>				
ROE	13.95 %	14.37 %	-0.42 %	-2.92 %
ROA	1.67 %	1.72 %	-0.05 %	-2.91 %
NIM	2.84 %	2.92 %	-0.08 %	-2.74 %
Annual Net Income	16,808.04	17,319.48	-511.44	-2.95 %
Lifetime Net Income	107,851.75	111,133.44	-3,281.69	-2.95 %
<b>Credit Risk RowHeader</b>				
Probability of Default	2.00 %	2.07 %	-0.07 %	-3.38 %
Loss Given Default	29.00 %	29.00 %	0.00 %	0.00 %
Expected Loss %	0.58 %	0.60 %	-0.02 %	-3.33 %
<b>Rates RowHeader</b>				
Current Rate to Client	4.98 %			
Current Index Rate	0.00 %			
<b>Costs RowHeader</b>				
Acquisition	1,738.00	1,738.00	0.00	0.00 %
Maintenance per Month	129.00	129.00	0.00	0.00 %
<b>Others RowHeader</b>				
Region	98,402	19,667	78,735	400.34 %
Expected Pmt Term (M)	77	77	0	0.00 %