

Memo

To: Ramsey EDA
 From: Mike Mulrooney, Economic Development Consultant
 CC: Patrick Brama, Kurt Ulrich
 Date: October 8, 2012
 Re: Koru Fitness Loan Request

As we discussed at our last meeting, Koru Fitness wishes to proceed ahead with the development of a new fitness center in the City of Ramsey. A copy of the business plan is attached for your review. The business is a start up work out facility designed in an art studio format. The studio will feature a large stage for instructors offering optimum viewing for every participant. The business will be located at the intersection of Bunker Lake Blvd and Highway 47.

The following is the proposed financing structure for the project.

Uses of Funds	Amount	Rate	Term	Debt Service
Working Capital	\$ 54,000			
Equipment	\$ 54,000			
Leasehold Improvements	\$ 69,000			
Total Project Costs	\$ 177,000			
Sources of Funds				
Bremer Bank	\$ 65,000	5.50%	10	\$ 8,465
City of Ramsey	\$ 34,500	3.25%	10	\$ 4,045
Landlord	\$ 47,500			
Owner Equity	\$ 30,000			
Total Sources of Funds	\$ 177,000			\$ 12,510

Ownership and Management

Koru Fitness will be owned equally by Nicole Kutches and Gary Nereson. They are related parties (father-daughter). Nicole will comprise the onsite management. She has an extensive background in the exercise industry as note by her resume contained in the business plan.

Guarantors/Obligors

We recommend that the EDA require personal guarantees from both shareholders. Nereson and Kutches have outstanding credit and strong financial statements. The Experian credit scores for Nereson and Kutches are 758 and 859 respectively. These scores are considered to be in the low risk category. Nereson's personal financial statement reflects a significant net worth that is more than adequate to cover the loan amount.

Collateral

The primary lender for this project is Bremer Bank. The bank plans to approve the financing for this project using the SBA 7(a) loan program. In this structure, the bank/SBA will have a first lien position on all business assets. The Ramsey RLF loan will be in a second collateral position. While this can be looked at as an unsecured loan, given the credit of the borrowers and their historical performance in other business ventures, I feel that this is a risk worth taking.

Key Risks

- Start up Business
- No historical cash flow to determine repayment ability

Key Strengths

- Experienced management team
- Strong personal balance sheet
- Outstanding credit
- Sound business plan

Recommendation

Recommend approval as presented subject to

1. Bremer Bank/SBA approval
2. Equity requirements met by owner
3. Clear title
4. Execution of a loan agreement
5. Personal guarantees of owners