



BUSINESS FINANCING

SBA Loans | Financial Packaging | Federal, State and Local Financing | Incentive Financing | Revolving Loan Funds

March 5, 2017

Patrick Brama
Assistant City Administrator
City of Ramsey
7550 Sunwood Drive NW
Ramsey, MN 55303

RE: AMERICAN PRINT AND DIGITAL LOAN REQUEST FOLLOWUP

Dear Patrick:

The Ramsey EDA and City Council have approved a request for financial assistance from American Print and Digital to assist with the purchase of an existing building, make improvements to the building and purchase equipment. The approved loan amount is \$72,500 payable over a 10 year period at a rate of 3%. The loan approval was conditioned on securing a second mortgage on the residence of the owner as well as the owner's personal and corporate guarantees.

After additional discussion with the borrower and their primary lender, the borrower requested that the EDA and the City Council reconsider securing the loan with his personal residence. Instead, the borrower requested that the loan be secured by the real estate and the new and used equipment to be purchased along with the personal guarantee.

A prudent lender looks for more than one source of repayment for commercial loans. The reason for this is that if, for some reason, a delay or a problem occurs, the repayment commitment can still be honored. In the case of American Print and Digital, we identified 3 sources of repayment. They include the following:

Repayment Sources

- Primary: Cash Flow from Operations
- Secondary: Liquidation of Collateral
- Tertiary: Personal and Corporate Guarantees

March 5, 2017
Patrick Brama
Page Two

I want to emphasize that the primary source of repayment for a business loan is the cash flow generated by the operations of the business. When the request is for an owner-occupied commercial mortgage or equipment loan from a local revolving loan fund, it is important to analyze the company's tax returns and financial statements to determine if the cash flow is sufficient to support the additional monthly payments. This step in the analytical process has been completed. Historical global cash flow for the American Print and Digital loan request is sufficient for the business to service the debt associated with the proposed project with a ratio of 1.77 for FYE 2015. Trends are positive with global cash flow improving for each of the last three fiscal years.

Collateral

As discussed earlier, commercial lenders know that that it is important to identify a "secondary source of repayment" and obtain all the collateral you can. Most lenders believe that there should be more than one source of repayment so that should there be a delay or a problem the repayment commitment can still be kept.

The collateral that has been proposed for the Ramsey RLF loan related to the American Print and Digital project is real estate and equipment. The loan would be secured by a lien position junior to The Bank of Elk River, Minnesota Business Finance and the US Small Business Administration. Commercial real estate appraisals for this project have now been completed. A collateral analysis has been completed and is attached for your review. Based on the collateral analysis the collateral is insufficient to achieve the EDA approved 95% "loan to value" ratio when all loans are taken into account. To help mitigate this deficiency Ramsey requested that additional collateral be offered. Based on the initial credit analysis collateral existed in the personal residence of the borrower. The borrower has since rejected this condition and has subsequently offered additional equipment to secure the loan. A list of the equipment and the corresponding estimated market value is attached. A secured position in this collateral will require a release by The Bank of Elk River. Staff has been informed that The Bank of Elk River has agreed to do so. Assuming that the estimated market values are correct and that the Bank of Elk River agrees to the release, collateral should be more than sufficient to provide support for the loan from the Ramsey RLF as Ramsey will have a first lien position on the collateral.

March 5, 2017
Patrick Brama
Page Three

When it comes to community based lending it is important that everyone understand what should happen before you get to the stage of using collateral as a "secondary source of repayment." You only seize collateral and pursue the guarantees once you get to the default stage.

Very few borrowers drop from "repaying as expected" to "default" overnight. Repaying in an orderly fashion through strong cash flow is always the "primary source of repayment". Before arriving at the default stage there is usually a progression in the borrower's deterioration. All along that path, alternative sources of repayment are usually available, such as refinancing, the sale of non critical assets, additional cash injection or restructuring the loan. In summary the point I want to make is that there are more choices than simply getting repaid by the cash flow of a borrower or by the liquidation of collateral.

Experience has taught me that when it comes to community based revolving loan funds you should regard collateral less as a source of repayment and more as a loss mitigation tool. By the time you seize the collateral, you are usually going to take a loss. More often than not, as a borrower's financial health weakens, the value of both the collateral and the guarantees diminish as well. If circumstances warrant a collateral sale, the EDA may face steep discounts and significant expenses related to the sale.

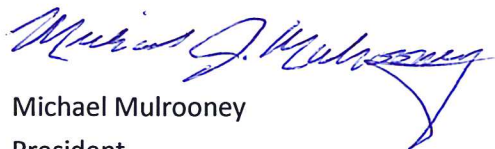
In the end it is very important that you focus on cash flow which is the single most important element in determining whether a business has the ability to repay debt. In our judgment American Print and Digital has sufficient historical cash flow to repay the proposed debt.

Recommendation

CMDC recommends approval of the loan request based on the information provided subject to

- Loan approval of The Bank of Elk River
- Loan approval from Minnesota Business Finance
- Loan Approval from the US Small Business Administration
- Corporate guarantee of American Print and Digital and Zap Properties LLC
- Personal guarantee of Jason H. Farrell

Best regards,



Michael Mulrooney
President

AMERICAN PRINT AND DIGITAL COLLATERAL ANALYSIS

Project Collateral Value Orderly Liquidation Value SBA 504 Collateral Analysis

Real Estate Appraisal	\$	790,000	\$	790,000	\$	790,000
New Equipment						
Demo Cron ECRM CTP	\$	70,000	\$	45,500	\$	70,000
Software	\$	41,995	\$	27,297	\$	41,995
Used Equipment						
Ryobi Press (Purchase Price)	\$	344,000	\$	225,000	\$	344,000
Spiral Docupunch (Appraised Value)	\$	20,000	\$	13,000	\$	20,000
Installation Cost on Equipment						
Total Collateral	\$	1,265,995	\$	1,100,797	\$	1,411,995
Less TBER 1st Lien	\$	722,000	\$	722,000	\$	722,000
Less MBFC/SBA 2nd Lien	\$	577,000	\$	577,000	\$	577,000
Net collateral available to Ramsey RLF	\$	(33,005)	\$	(198,203)	\$	112,995
Ramsey RLF	\$	72,500	\$	72,500	\$	72,500
Total Combined Debt	\$	1,371,500	\$	1,371,500	\$	1,371,500
CLTV		1.08		1.25		0.97
LLTV						

APD Equipment List

Owned Equipment		Value	Serial
Presses	Heidelberg QM-46	\$ 4,000	965212
	Heidelberg QM-46	\$ 4,000	964154
	Heidelberg QM-46	\$ 4,000	963029
	Heidelberg Windmill	\$ 2,000	
	Konica 1051	\$ 5,000	
	Epson wide format	\$ 1,000	
	Oki ProColor 900	\$ 5,000	
	Ryobi 3200	\$ 500	9191
	Envelope feeders	\$ 1,500	4671
	Prepress	DPX CTP	\$ 2,000
Bindery	Polar 40 inch cutter	\$ 15,000	
	Polar 28 inch cutter	\$ 4,000	5351106
	Stahl Folder	\$ 10,000	
	table top folder	\$ 1,500	85D126
	table top folder	\$ 1,500	14x20
	Quad Carts x 4	\$ 1,000	
	Jog Tables x 3	\$ 500	81161
	Rosback scoring	\$ 3,000	
	Shrink Tunnel	\$ 5,000	15541608TLMB, 13881622TPP
	Challenge drill	\$ 3,000	
	Graphic Whizard	\$ 5,000	2004358
	Graphic Whizard 6000	\$ 4,000	
	Creasemaster Pro	\$ 5,000	
	Duplo 5000	\$ 45,000	
	RhinoTuff spiral equipment	\$ 3,000	
	Uline strapping machine	\$ 500	
	ARL 2700 Laminator	\$ 1,000	56269-1207
	Corner Rounding	\$ 2,000	
	Business Card splitter	\$ 4,000	Sun HS-3000-GC

TOTAL \$ 143,000

APD New Equipment