

MARBIDCO Guidance
for Partnering Financial Institutions Concerning
MARYLAND RESOURCE-BASED INDUSTRY FINANCING FUND
“MRBIFF” Loans (acronym pronounced “Mr. Biff”)

What characterizes a typical MARBIDCO project financing under the MRBIFF Program?

- MARBIDCO can assist a commercial lender with a food/feed/fiber production or processing project financing (including equine and horticulture projects) that would be difficult for that commercial lender to do solely on its own. For example, MARBIDCO sees many project financing requests from young or beginning farmers with limited personal resources, as well as, established farmers wishing to diversify into on-farm value added processing activities.
- MARBIDCO borrowers typically have a marginal to good credit history, but limited funds to apply as a down payment for a project purchase. MARBIDCO, like all lenders, prefers to see some owner equity in a project financing request, but we are flexible as to how much (10% or more would be ideal, but 0% is okay in some circumstances). Acceptable collateral security is often an issue for commercial lenders requesting MARBIDCO participation in project financings, which is why MARBIDCO can take a subordinate lien position when the equity contribution would be deemed to be too small.
- MARBIDCO MRBIFF loans are direct loans made to eligible borrowers working in tandem with a separate loan financing being offered by a commercial bank or Farm Credit Association. In nearly all instances, MARBIDCO takes a subordinate lien position on the collateral security, and MARBIDCO charges a below market-rate of interest on the funds it advances.
- MARBIDCO MRBIFF loans may provide financing in the range of 20% (minimum) to 40% (maximum) of the total commercial financing needed to fund a project under the condition that a commercial lender. So, for example, if a borrower needs a total of \$100,000 in commercial financing, then MARBIDCO’s participation in advancing funds for the project would be in the \$20,000 to \$40,000 range. (A 50/50 participation might be possible under extraordinary circumstances.)
- As with many banks, MARBIDCO has adopted a cash flow lending philosophy. MARBIDCO requires a minimum debt service coverage ratio of at least 1.1 to 1 for all the MRBIFF loans it makes (with the exception that all MRBIFF poultry loans are required to have a minimum debt service coverage ratio of at least 1.2 to 1, or better). This means that on a pro forma basis the borrower should be theoretically able to pay all his or debt obligations (but not necessarily with too much of a cushion).

- Many banks have a debt service coverage ratio minimum standard of 1.25 to 1 or greater, so MARBIDCO's introductory interest rate charge of 4.25% (during the first 36 months) can often strengthen a lender's review of the cash flow coverage analysis. With a bank charging its normal market rate of interest for its loan advances, and MARBIDCO charging a below-market-rate for its funds, a business borrower is provided with an overall lower blended cost of capital for a project financing.
- MARBIDCO Interest Rate: 4.25% for the first 3 years, 4.50% for the next 3 years and 5.75% for the remaining term of the loan.
- MARBIDCO, as noted above, can also assume somewhat more collateral risk than a traditional commercial lender. In most circumstances, the combined loan-to-value ratios with security interests in real estate may exceed the customary 70% to 85% LTV limitations that most banks try to adhere to (and combined LTVs of 100% are possible in some circumstances, especially involving beginning farmers). Valuations of any equipment being offered as collateral security are handled on a case-by-case basis, and *NOTE: All MRBIFP poultry loans may not have a combined LTV ratio that exceeds 92%.*

How much can MARBIDCO lend under the MRBIFP program?

- The maximum loan amount for the acquisition of equipment and fixed assets (including building construction) is **\$300,000**. (This also includes working capital.)
- The maximum loan amount for the purchase of real estate, or financing for food processing and renewable energy projects is **\$600,000**.
- The maximum loan amount for large commercial food or fiber processing projects (exceeding \$2.5 million in total cost) is **\$900,000**.
- If exceptions are needed to the above lending limits, please do not hesitate to contact us to explain the circumstance and seek a special exception. *Exceptions to the poultry loan standards will likely not be granted.*

MARBIDCO loan requirements and preferences include:

- Borrowers with credit scores of less than 620 and/or a recent history of bankruptcy are not good candidates for MARBIDCO loans. (FYI, MARBIDCO uses an AgScoring model in its credit underwriting which takes into account a borrower's credit history and certain financial information including borrower net worth. A satisfactory score is 160 or above, although a lower score may be acceptable under certain circumstances.)
- All MARBIDCO MRBIFP loans must have collateral security, and loan-to-value ratios cannot exceed 100% FMV. Naturally, we prefer real estate as security for our loans, but equipment and certain financial securities may also work as acceptable collateral under the right conditions. MARBIDCO prefers a recent (within the last 6-12 months)

appraisal for all real estate loans, but can make an exception for exceptional combined loan-to-value ratios. MARBIDCO does not accept crops, livestock or inventory as collateral security.

- MARBIDCO is somewhat flexible in structuring the terms and conditions of its loans (i.e., loan repayments can be made on a monthly, quarterly or annual basis, and certain loans can be offered on an interest-only basis for a period up to one year).
- In addition, in a real estate purchase transaction, for example, MARBIDCO would likely structure the term and amortization of its loan to match that of the bank's loan (say 15 years), but it is also common for longer term MARBIDCO debt obligations to have a 10-year balloon feature. **The fixed annual interest rates currently charged for a MRBIFB loan: first three years – 4.25% APR; next three years – 4.50% APR; and remaining five years – 5.75% APR** (with the principal balance due and payable at the end of the tenth year in many cases). Loan origination fee is 1% of the loan amount.
- Please also be advised the financing of poultry farm purchases involving “pole houses” are no longer permitted (and these projects are therefore ineligible).

How long does the loan application and closing process take?

- As a rule of thumb, we strongly advise borrowers and loan officers **to submit a complete application** to the MARBIDCO Financial Programs Office **at least 45 to 60 days** ahead of the anticipated transaction settlement date (if such is known). We target issuing a commitment letter within 21 days of a complete application having been submitted to the MARBIDCO Financial Programs Office.
- MARBIDCO's loan approval process includes a credit underwriting analysis conducted by MARBIDCO staff followed by review and approval by a Loan Review Committee (consisting of experienced commercial and agricultural lenders as well as agribusiness development experts). Loans in excess of \$300,000 must also go to the MARBIDCO Board of Directors for approval. As noted above, this loan approval process can take up to three weeks to complete.
- Loan closing documents are prepared by the Office of the Attorney General (OAG), working in conjunction with MARBIDCO's lending team. The OAG requests a minimum of two weeks (10 working days) to prepare all closing documents commencing **from the time they receive title** and any additional requested documentation from the checklist that is prepared for each loan closing. **Participating bank loan officers are strongly encouraged to expedite title and other loan closing document requests on their end so as to keep the process moving expeditiously.** (In the past, loan closings have been delayed because a bank loan officer neglected to act in a timely fashion to request an appraisal, order title, or collect other needed checklist items.)

- Sometimes the individual circumstances of a real estate or other business transaction do not permit a six-week or longer turnaround period for a loan closing to happen. It is possible under certain situations that a MARBIDCO loan closing could occur in as little as four or five weeks time, but only if the factors surrounding the individual loan request are very favorable. **We strongly advise all bank loan officers to contact the MARBIDCO's Financial Programs Office early on with any questions and to alert MARBIDCO staff that MRBIFF loan request packages may be headed their way.** Loan requests with a closing date of less than 30 days out cannot be accommodated under any circumstances.

What constitutes a “complete MARBIDCO loan application”?

Here's a short checklist:

- A completed and signed (by the applicant and the loan officer) MARBIDCO loan application form.
- Two years of tax returns for both the applicant(s) and the business entity (if applicable).
- A description of the business and history (or resume) of applicants and guarantors.
- A business plan (or at least a decent summary statement including any pertinent details).
- A balance sheet for the applicants, business (if applicable), and all guarantors (if not included with the bank's underwriting package).
- An income statement: MARBIDCO prefers at least two years of historical income for an existing business and revenue and expense projections going out at least two years (three years is preferred).
- A pro forma income statement.
- Lender credit underwriting analysis narratives and worksheets (optional, but preferred).

How is a loan closing facilitated?

- MARBIDCO will generally issue a Commitment Letter to the applicants, copied to the loan officer, within 21 days of receiving a complete application. A checklist of items required for closing is also issued with the Commitment Letter.
- Loan closing documents are prepared by the Office of the Attorney General (OAG). OAG lawyers and paralegals work with the MARBIDCO staff, bank staff and the title attorney to make sure all the documentation necessary is gathered in advance of closing. Please allow at least two weeks (10 working days) from the title work being delivered for a loan closing to be scheduled.
- A member of the MARBIDCO staff may attend the closing and will bring along a settlement check and any MARBIDCO closing documents; OR these settlement documents may be sent by overnight mail and the funds wired to the title company.

- MARBIDCO's check will generally be for the full amount of the MARBIDCO advance. MARBIDCO also collects a loan origination fee of 1% at closing (and we DO NOT reduce the amount of the check by the amount of the loan origination fee).

Out of curiosity, when is a “stronger borrower” not eligible for a MARBIDCO loan?

- The MRBIF Program exists to help commercial lenders to help "fill the gap" and approve deals that they might otherwise pass on. MARBIDCO's relatively limited resources need to be reserved for businesses that are financially viable but show significant weakness in one or more areas of credit analysis that might be sufficient enough to warrant a lender to turn a borrower down if MARBIDCO's participation was lacking. Lenders are asked to send only these kind of credit requests to MARBIDCO, and to refrain from sending stronger loan requests in for consideration if the lender can do the “whole deal”. If there are questions concerning this, please do not hesitate to contact a member of MARBIDCO's lending team.
- Factors that MARBIDCO might consider in declining a MRBIF loan request from a lender and borrower might include:
 - A borrower with a net worth in excess of \$1.5 million coupled with a very good credit score, a reasonable projected cash flow, and not a lot of outstanding debt; or
 - A project pro forma financial analysis with a strong debt service coverage ratio (above 1.8 to 1) coupled with a loan-to-value ratio on security of 60% or less.
- Not every financing situation is simple or clear cut. Please do not hesitate to contact a MARBIDCO staff member if you have a question or a concern.

Have More Questions?

Please contact a member of the MARBIDCO Financial Programs team below by email, or at 410-267-6807:

- Betsy McKeehan, Senior Programs Officer (bmckeehan@marbidco.org)
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