7. Capability

This assessment determines the probability of the investor getting repaid their investment back - within a defined period of time. For example, it may take 6 – 12 months to construct a facility, two years to achieve operational stabilization (full or nearly full capacity with sustainable revenues and good net operating income) and then a minimum of a year or so to enable a refinancing – at a high LTV. In this example, it would take around four to five years before a project could be expected to be refinanced, sold or recapitalized. Next, the repayment Capability assessment needs to forecast the capital / finance market conditions and complete a rate sensitivity analysis to see if the DCR would allow a financing, sufficient to repay the EB-5 investors.

Therefore, the Capability of the project to repay the investors is determined by:

1. **Internal Factors**: things under the control of the business and its management, and
2. **External Factors**: capital markets, banking climate, industry trends, interest rates, and the local market conditions.

**Lender’s Commentary**: Assessing the projects capability to be refinanced in future years will require another evaluation all of the C’s noted above – based upon some future time (five years?). In other words, what will the Industry be like then? What will likely be happening to the local market? Looking at demographic forecasts for the local market now will help with that assessment.

There are massive structural shifts in today’s society… for example, people went to video stores for many years to rent movies. Now, people download movies from their home. Many of the viable movie rental companies from five years ago are bankrupt and their buildings are being sold at significant discounts. People are starting to get comfortable with on-line purchasing. What will the impact of this trend be on malls and retail stores in 20 years? Why is a 20-year view important… now? Because the new financing entity (in 5 years) will probably be extending a 20 to 30 year mortgage. That future lender will be evaluating the probability of the future financial prospects of the industry and local market.

Next, we would complete a rate sensitivity analysis to determine how much a 300 - 400 basis point (“bp”) increase in interest rates (from today’s rates) would impact the amount of a refinance (five years out). Further, would the available loan proceeds (constrained by
the minimum 1.25 Debt-Coverage-Ratio) still enable the EB-5 investor to get repaid? Planning on an EB-5 investor repayment strategy from a projected sale would be viewed by a lender as extremely speculative, unless sales of the project type were not impacted by the recent recession.

**EB-5 Investor guidance:** To put any credence on a developer’s claim that they can return the EB-5 investment within five years... they need to demonstrate that they did that recently with a similar project type, numerous times. If the developer of a project cannot demonstrate that they have been able to recently repay all project investors & bankers, you should significantly discount any claim of getting funds back within five years.

**Bottom Line:** Getting your funds back sooner (rather than later) is an important financial consideration. For example, if you can realize a 15% Return-On-Equity (not unreasonable internationally), then a project that get's your $500,000 back two years earlier than another project, will provide you with $150,000 in additional earnings.