6. Competence

This is the first of the two EB-5 specific Credit Analysis measurements. Competence (of the management team - and of their ability to successfully implement their marketing and operational plan) helps determine the probability that the 10 jobs for each EB-5 investor will be created within the required timeframe. This is essential for the I-829 approval and achieving a permanent Green Card. The harsh reality is, if the project doesn’t achieve the job requirement, then all the effort, time and money invested is wasted.

Proven competence of the management team (aside from assessing the local market demand) is an extremely important indicator of probable future success. For example, if a management team has successfully developed 10+ similar projects together, it is reasonable to think that they may be much more “competent” than a newly assembled management team attempting to develop a new project type for the very first time.

The real challenge for an EB-5 project is to ensure that it reaches stabilization within a very tight timeframe. For example, a large, $50+ million project may take much longer to build and then reach full operational capacity (stabilization) than a smaller $5 million project. Therefore, the risk assessment challenge is to understand what can go wrong with the construction that could delay the opening of the facility. Further, what are the operational challenges that could delay the project from either achieving the revenues or direct jobs needed at the time of I-829 review.

If an IMPLAN economic model is used, the USCIS test will be on evaluating the number of qualified full time employees at a defined period of time. If RIMS II economic model is used, the jobs will be imputed from a combination of building costs and annual revenues. Assessing the marketing and operational plan, in light of the economic modeling methodology, therefore is essential.

Lender's Commentary: The EB-5 investment is similar to a 3 - 5-year construction to mini-perm loan. Why? A construction to mini-perm loan generally finances a new project, with an interest only payment that has real estate as collateral and has a very defined term, usually 3 to 5 years. These are all the same characteristics of an EB-5 investment.

The EB-5 investment is really not like “equity” because equity is most normally associated with generating seems like a run on sentence and where is b : ? a: risk adjusted rate of return, would finance projects with moderate to high risk of failure and rarely would an exit strategy involve something other than a merger, sale or IPO. As a result, the motivations of the EB-5 investor are clearly focused on EXTREMELY LOW RISK. While many EB-5 developers consider the EB-5 investment to be equity like, the EB-5 investors do not... and should not.

EB-5 Investor guidance: The project’s management team’s proven ability to create a
viable business with solid employment in a short time is critical to the EB-5 project’s success. We strongly encourage the EB-5 investor to evaluate management’s past successes with a similar type of business, in a similar market. Note: the Regional Center’s selection of competent EB-5 service provider’s is also a very important consideration. Ensure that the professionals preparing the PPM, economic study and business plan are industry experts in their respective fields. The effects of a faulty economic study or business plan at the I-829 stage can be just as devastating to the EB-5 investor’s goal of achieving a Green Card as if the project failed.

Bottom Line: The EB-5 investor should carefully assess each of the project’s key manager’s in terms of their prior job experience and make a determination if they would hire those managers, if they were on the board of directors of the project entity.