Summary

There are many risks to be evaluated, but for this summation we will focus upon four major risks of failure – to provide a green card and return invested funds:

- Is there an established, proven and immediate need for the project, the product, or the service? If there is not an immediate and proven need for the project, then debt is not a viable solution (too much risk). In these situations, equity (venture capital funding) is the best option. Therefore, it should not be an EB-5 funded project.

- Is the project, product or service competitive (features, price, location, etc.) and will it likely grow in competitive value over the next 7+ years? If at the end of 5 years of operation the business is not growing and succeeding… the repayment – exit strategy will likely be compromised. Therefore, the return of the invested funds is in jeopardy – not a viable EB-5 funded project.

- Is the management team “world class” competent and proven successful doing the exact same thing over and over? The requirement to launch a business and achieve employment thresholds within 24 months requires that the management team flawlessly execute the business plan. The team should have done this same type of business together, many times previously. Otherwise, the risk to the EB-5 investor is that the jobs may not materialize on schedule and the I-829 may be denied, i.e., permanent Green Card denial. The EB-5 investor needs to be convinced that the development team has vast and proven prior experience for the task at hand. The probability that a management team will succeed the 10th time that they do the same thing is much higher than if it is their first attempt.

- Is there enough capital to establish and grow the business successfully? Most businesses fail to adequately fund a project during start-up. This is often tied to underfunding the “Initial Operating Deficit” and “Working Capital” reserves. As a result, to an EB-5 investor - because the lack of capital can and will (usually within the first 18 months) constrain employment (jobs). This can put the EB-5 job requirement at risk.

Carefully assessing… the immediate market demand of the project, project competitiveness, the competence of the management team and the adequacy of project capital are several of the best predictors of whether the required number of jobs will be created – within the required timeframes. Further, assessing the likelihood of the businesses success in years 5 through 8 will help you assess whether the project will have options to: 1. refinance, 2. Pay the EB-5 investment back from cash (after tax retained earnings) or 3. can be sold with enough proceeds to repay the
investors.

There are many EB-5 investment options available to the investor. The prudent investor will not make an investment without being fully satisfied that the investment will generate the Green Card (requiring the jobs being created within 24 months) and that a believable repayment strategy is in place.

For more information on EB-5, please go to our Learning Center.