Using the Seven C’s for EB-5 Investing™

White Paper – Series I

By: Gregory Wing, President & CEO,
Bedford International & Education Fund of America

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Using the Seven C’s for
EB-5 Investing™

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Lending institutions have used a time-honored methodology to evaluate the risks and
credit worthiness of borrowers and projects for many decades. This methodology is commonly
called the 5 “C’s” of Credit Analysis (Character, Collateral, Capacity, Capital and Conditions).
While not the only methodology to assess project risks, these 5 C’s address most major risk
issues associated with investing in (or lending to) a real estate based businesses.

Not adhering to the 5-C’s can result in dire outcomes. Investing in an EB-5 project requires 2 additional C’s,
(for a total of 7) in order to fully assess the project risks. These will be explained in this White Paper.

The United States is finally coming out of the most severe economic recession since the 1930’s. In large
part the recession was initiated by failures in the residential housing sector. This happened because
lenders and U. S. Rating Agencies failed to properly assess and report the financial risks
associated with sub-prime (risky) loans. Purchasers of the loans (usually institutional
investors) relied on faulty Credit Analysis reports - on the loans and loan pools. Further, the
loan repayment guarantee companies (credit enhancers – insurance companies), relied upon
faulty Credit Analysis reports and were ultimately unable to fulfill their obligations when the size
of the problem overwhelmed their financial capacity.

One could argue that poor risk assessment / Credit Analysis (on the part of the lenders,
Rating Agencies and investors) was at the center of the problem. The lenders, sensing an
investor appetite for the risky loans, overheated the housing market in the US by extending
credit (mortgages) to financially weak borrowers who had been provided loans with inadequate…

- **Capital at risk** (5% - 0% down) and they generally had little…

- **Capacity** to make the mortgage payments after interest rates increased. People walked
  away from the loans, putting an oversupply of housing on the market that further
  depressed prices - causing the…
• **Collateral** value of the loan to evaporate – or turn negative.

Ultimately, three of the five “C”s of Credit Analysis were violated. The impact of poor Credit Analysis was devastating to many families.

The Five C’s of Credit Analysis provides guidance to: bankers, lenders, and investors to determine the creditworthiness of their borrowers and/or of a project. Further, these five “C’s” are very useful to an EB-5 investor as they compare the investment risks of one EB-5 project against another.

Generally speaking, a lender or investor is most concerned about two things in providing funds to a project:

1. Understanding the probability of getting their money back, and;

2. Receiving a desired rate of return on their loan or investment,

Lenders Credit Analysis activities will focus on those two objectives when assessing risk.

The EB-5 investor has two additional objectives. The objective of the EB-5 investment is not driven by a desire to secure a rate of return on the invested or loaned funds. The motivation of an EB-5 investor should be based upon the desire to secure a United States Green Card.

The primary determinant in securing the Green Card is that the investment will generate the required number of jobs (10 for each EB-5 investor) in the time allotted (generally within 24 months). This requirement places an additional burden on the investor to assess the risk of whether the project is capable of creating the jobs within the required timeframe. Not understanding how to assess the job creation risk has caused some EB-5 investors to put more emphasis on secondary and tertiary risk assessment priorities, like investment guarantees, etc.

This White Paper is intended to help EB-5 investors better understand the Seven “C’s” and to help them assess the risks of different EB-5 projects.

What is Credit Analysis? It is the method by which a lender or investor calculates the creditworthiness of a business or project. Credit analysis involves a variety of financial analysis techniques, including ratio and trend analysis as well as the evaluation of the developer’s ability and willingness to repay the loan or investment. Credit analysis also includes an examination of collateral and other sources of repayment as well as credit history and managements prior experience.
The Seven “C’s” of EB-5 Credit Analysis: Six of the C’s assess the borrowers’ ability to repay and one of them assesses their willingness to repay. The six C’s that help a Credit Analyst evaluate a project’s repayment ability include: Collateral, Capacity, Capital, Competence, Capability and Conditions. The final “C” assesses whether the borrower is a person of integrity that will actually perform according to the loan or investment agreement is Character.

1. Conditions

The assessment of credit quality (risk assessment) for a project begins with a macroeconomic evaluation (the industry that it is in) and then assess the local market of the business, i.e. local market demand. Understanding economic Conditions are critical in determining the viability of a project. This is because economic conditions affect different industries – differently. For example, the Homebuilding Industry was severely and negatively impacted during the recent recession. Conversely, the Pharmaceutical Industry was only slightly impacted.

Understanding the industry that a project is in is a very important factor in assessing overall project risk. Below is an industry risk assessment table that was created using generally accepted U.S. Rating Agency industry data. It shows how the state of the economy impacts different industries.

Many of the business in the highly affected and moderately affected industries noted to the right have seen significant contraction during the current recession. That has further impacted the broad economy as their declining need for office space, equipment and services which in turn has affected other businesses.

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<th>Highly Affected</th>
<th>Moderately Affected</th>
<th>Slightly Affected</th>
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<td>Education</td>
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Let’s look at the Health Care Industry as an example, because it’s an industry that most would agree is in a growth mode. It’s generally agreed that the need for drugs, medical devices, healthcare facilities, etc. will grow, based upon predictable population growth. While the industry might be strong, there are local markets that have declining populations or an abundance of health care facilities. As a result, the prudent EB-5 investor will need to not only assess the broad industry but also the local market demand for a facility or business.

For example, assessing the local market opportunity for a new Assisted Living Facility (“ALF”) is fairly straightforward. If the occupancy of the competing facilities is above 93%,
then the market need for a new ALF is considered - strong. Conversely, assessing the market opportunity for a new manufactured product or technology is much more challenging, even if it is in a growth industry. However (there is always a “however” in Credit Analysis), a financier needs to also assess the possibility of the local market becoming overbuilt. This happened in many local markets with health care facilities.

There is an old saying, “a rising tide lifts all boats”. Therefore, a project in a stable or growth industry with strong and verifiable local market demand can truly benefit from the “rising tide.”

Lender’s Commentary: As a commercial real estate lender for over 20 years and having financed over $5 billion (USD), we do not consider funding the new construction of a project without first evaluating a third party market study that would assess the demand of all competing projects. In the case of health care – possibly a nursing facility, we will need to see a market study that compares the new project against the local competing facilities. If the local market shows that the average occupancy of the competing facilities is less than 93%, then we will not fund the project, because of a possible risk of failure. Building the project and creating an oversupply in a market will usually result in price erosion, negatively affecting revenues and profitability.

However, if all the competing facilities are old and “tired”, we might consider financing the project with the expectation of attracting occupants of the “tired & older” facilities. This decision starts the subjective underwriting assessment and considers all the factors of the project. All financiers (and EB-5 investors too) need to know that there is a strong market demand for a project. That should be based upon a solid third party market study.

Additionally, we look carefully at the source of the business’s revenues. If the revenues are from a governmental agency that has promised payments on some measureable criteria, then the risk assessment of the business achieving its revenue objectives can be much clearer. If the business has to go out and create its customer base from scratch, that’s an entirely different matter. As a result, Publicly Funded - Privately Managed businesses can show a much more predictable revenue stream than Privately Funded – Privately Managed businesses.

**EB-5 Investor guidance:** Be sure to evaluate the future economic trends for the industry and the immediate local market demand for the EB-5 project. You should understand the current need for the project because that will likely affect the projects short term success and directly impact the job creation timeframe. Further, evaluate future industry trends to help you assess whether it’s likely that you will be able to get your EB-5 investment back in the timeframe that you expect.

**Bottom line:** the EB-5 investor should carefully review the market study and appraisal for the project - prior to making a final investment determination.
2. Character

It can be defined as the behavioral traits leading to whether the developer will make good on their commitment. It describes the person’s: reputation, honesty, treatment of others and integrity. Typically, character is the lenders way of summing up a borrower's determination to pay according to their commitment. It is best tested by how they behaved during periods of cash shortages, hard times, and poor business conditions. How the business treats it’s: employees, suppliers, stockholders, bankers and clients is a material indicator of Character… of the management team and the company in general.

We can track character negatively, or, the lack of it, by checking the borrower's previous payment history. Information reflecting negatively on the integrity of the borrower is critical. Credit reports provide the necessary statistics, but of course, their inherent weakness is their reliance on past performance. No one’s willingness to pay is tested in good times. It often takes enduring a difficult financial period to find out if a borrower will honor their promises and meet their commitments. The key to assessing character, from a lender’s perspective, is the willingness to pay (fulfill a commitment). This is probably the most difficult of the seven C’s to determine because it can be somewhat more subjective than objective.

Lender’s Commentary: As lenders for decades, we believe that determining the borrowers “Character” crucial in that we won’t do business with a person who has questionable character. However, good character does not materially affect our decision to fund their project. Clues that help us determine character include: management’s personal and business reputation, whether management is “greedy” or do they give back to other organizations. Another measurement is… has management treated their employees with dignity and respect or are they only out for themselves. The Enron debacle is a good example of what can go wrong when an excellent team of experienced professional's gets together, but have questionable Character. Our view is, if we would be willing to lend the person thousands of dollars on a “handshake”… they passed. Otherwise, keep assessing

EB-5 Investor guidance: The EB-5 investor probably has little chance to directly make a project “Character” determination. Therefore, the investor should make this assessment of the EB-5 Regional Center people to determine how they focus on this issue with their projects.

Bottom line: demand to see the Regional Center’s credit write-up on the project developer / sponsor. The credit write-up by the Regional Center should include a statement about the average credit rating for the individuals (and for the business) and a summary of the financial condition, net worth, past development activities, any lawsuits, criminal charges and bankruptcies.
3. Capital

This refers to the amount of cash the developers are putting at risk in the project. It takes money to make money, so the principals of a business must invest funds in the beginning to cover start-up costs: cover the initial operating deficit, acquire assets, fund working capital needs and fund the equity requirements to build or purchase a facility. This Capital is most often referred to as Project Equity. A project with high risk might be required (by the financier’s – lenders) to have as much as 50% developer’s equity. A project with low risk might be required to have only 5% to 10% Project Equity.

The total capital needed to finance a project is referred to as the “Capital Stack”. See table below. The capital stack to finance a simple project might only have two elements: 1. Bank Debt, and 2. Project Equity. The capital stack for a large project can be much more complex. Typically, the lower tranche of the capital stack, usually bank debt, will have the lowest cost of funds (and often have the first lien position). Conversely, the higher tranches will usually have the highest cost of funds and will usually have no Collateral backing.

The cash requirement (Project Equity) varies widely depending on the type of business being created. This cash requirement is very much connected to the risk associated with the project. For example, if the project’s revenues are based upon a relationship from a credit worthy entity (governmental entity, etc.) then the perceived risk of failure is much lower than, for example, a start-up manufacturing facility selling a new product. As a result, the required developer cash (Project Equity) will vary widely based upon risk.

### Sources of Capital

<table>
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<tr>
<th>Sources of Capital</th>
<th>Percent</th>
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<tbody>
<tr>
<td>Project Equity</td>
<td>600,000</td>
</tr>
<tr>
<td>EB-5 Debt</td>
<td>3,500,000</td>
</tr>
<tr>
<td>Bank Debt</td>
<td>2,415,563</td>
</tr>
<tr>
<td>Total</td>
<td>6,515,563</td>
</tr>
</tbody>
</table>

**Lender’s Commentary:** From a lender’s perspective, we like to see 20% - 25% equity in projects that have a moderate amount of risk. Those would typically be in industries that are only slightly affected by adverse economic conditions – as noted in the chart on page 3. However, we have in the past provided 100% financing of costs on the construction of hundreds of buildings (example, U.S. Post Offices, etc.) that were leased to governmental agencies. If the project’s revenue source is a direct obligation of a governmental agency (or sometimes indirect obligation) we may significantly reduce the developer equity requirements.

From a Credit Analysis and underwriting perspective we need to determine the equity ratio that we are comfortable with and then we determine the structure of the funding. Reducing the project equity (Capital) will often increase the debt amount. Because the project equity is not usually paid a monthly interest amount, reducing the equity will often increase the debt component. Increasing the debt amount will increase the monthly payments and thereby reduce the Debt-Coverage-Ratio (“DCR” or “DSCR”). We will address Debt-Coverage Ratio’s later in this white paper.

**EB-5 Investor guidance:** The more Capital that is put into the project will generally reduce
the monthly interest payments due on the debt. That can be a positive thing for the EB-5 investor because it should increase the Collateral for the EB-5 investor. However, it is also true that riskier projects (revenues are less certain) will often have a higher Project Equity structure. In all cases the EB-5 investor’s cash should have a priority on the distribution of cash back to the developer.

Bottom line: The EB-5 investor should always have preferential return on their investment - ahead of the project developer.

4. Collateral

Collateral is the term used to define the assets that will be held as the primary source of repayment on the loan or investment. Collateral can be: real estate, equipment, receivables, securities, etc. Assets likely to retain their values in deteriorating business conditions are the most desirable kind of collateral. Borrowers pledge these assets as “collateral” to build confidence that the repayment of the loan or investment is protected. Sometimes additional collateral is required to be pledged to induce a lender, investor to financially participate in a project. This might be in the form of personal or corporate guarantees that would encumber other assets.

The term Loan-To-Value (“LTV”) is a term most people are quite familiar with, because they know the value of their home, the value of their car, etc. Generally speaking the “market” establishes the value of an asset – based upon comparisons of prior similar sales. Income producing assets, (operating businesses that use real estate) such as: apartment complexes, office buildings, malls, hotels, etc., generally base their value on net income derived formulas. One is EBITDA or, Earnings Before Income, Depreciation, Taxes and Amortization. Therefore, the collateral value of a successful real estate based business is planned to be greater than the cost to build it. Generally speaking, prudent lending entities will provide financing (based upon industry norms) of up to 80% of value. Therefore, the Collateral for income producing real estate businesses is the “Value” minus all obligations (debt repayment, taxes due, equity repayment, etc.).

It is essential that an EB-5 investor know the stabilized value of a project and understand how long it will take to achieve that. Stabilized value is determined when the business achieves its projected revenue and Net Operating Income objectives. For example, for an apartment complex, stabilization generally occurs when the facility is able to have the apartments maintain a 95% occupancy rate. It is also important for the EB-5 investor to know when the project achieves stabilization because that is usually when it achieves its full job count. This issue becomes very problematic if the project achieves stabilization in the fourth year (following investment) and the EB-5 jobs need to be counted in the second to third year.

Lending institutions normally require an appraisal to determine the value of a project. This third party report is always beneficial to help the EB-5 investor determine the planned
Collateral value of the project. There are three ways to determine the value of income producing real estate:

- **The Cost Approach**... how much does the project cost to build?

- **The Income Approach**... how much Net Operating Income does the project generate? This is especially important to know for many EB-5 projects, such as: office buildings, retail centers, hotels, health-care facilities, etc.

- **The Sales Comparison Approach**... How much do similar properties in the local market sell for?

**Lender’s Commentary:** As commercial real estate lenders we know that market for a project can quickly change... from being viable to being overbuilt. For income producing real estate based projects, we pay careful attention to local area rents, occupancies and age of the competing projects. There is always a risk that a market can become overbuilt, however great operators will manage to maintain / create value even in difficult times. That’s why it is so important to select developers / operators that have a long track record of success.

There are developers who do not maintain their property at top levels. They do not maintain and repair their properties adequately... extracting that extra cash for themselves. When a market softens, those properties usually have more difficulty maintaining rents and occupancies. As a result, the collateral value of those properties can become much less than properties that fully fund their replacement reserves - from the opening and maintain the property in “opening day” condition.

**EB-5 Investor guidance:** If the Regional Center is also the Developer, you MUST demand to see a market study and an appraisal for the project – from a reputable third party. Those documents need to be a part of the offering package. Those documents will be the only safe way that you can determine the real market need and collateral value of the project. Further, you need to assess the operational skills and maintenance philosophies of the developer / operator – to avoid the problems noted above. To determine that, you should ask the developer / operator for a list of all their other properties, showing current and the last 12 months occupancies, the YTD and prior years NOI (net operating income) of the projects.

The Collateral value will be extremely important when the project needs to repay the EB-5 investor. If the total amount of debt and EB-5 investment exceeds 80% of the collateral value at the projected time for EB-5 repayment, then a refinance strategy for EB-5 repayment is very unlikely. The table below shows the sequence of steps needed to determine that:

<table>
<thead>
<tr>
<th>Uses of Capital</th>
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<tbody>
<tr>
<td>Land &amp; Site</td>
<td>13,661,267</td>
</tr>
<tr>
<td>Construction</td>
<td>67,336,428</td>
</tr>
<tr>
<td>Soft Costs</td>
<td>22,184,082</td>
</tr>
<tr>
<td>Total</td>
<td>103,181,778</td>
</tr>
</tbody>
</table>

First look at the total project costs. In this case it is a hospital:
**Determine the Value**

<table>
<thead>
<tr>
<th>Valuation Analysis</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>11,791,110</td>
<td>14,029,573</td>
<td>17,933,884</td>
<td>20,161,680</td>
</tr>
<tr>
<td>Valuation Multiple (8x)</td>
<td>94,328,880</td>
<td>112,236,581</td>
<td>143,471,075</td>
<td>161,293,437</td>
</tr>
<tr>
<td>Net Value</td>
<td>94,328,880</td>
<td>112,236,581</td>
<td>143,471,075</td>
<td>161,293,437</td>
</tr>
</tbody>
</table>

Therefore, the value of the project exceeds its costs in year two of operations. By year four it would achieve stabilization and be eligible for a refinancing. A refinancing constrained by 80% LTV would enable a loan of up to $128,000,000. That is $24,000,000 more than it costs to develop the project.

**Bottom Line:** look at the budget for maintenance and repairs of the project. This will help you determine the operational philosophies of the developer. If the maintenance and repair budgets are underfunded, most properties can become quite “tired” and old looking after five years. This can very negatively affect the property – project value.

5. **Capacity**

It is the ability of the business to operate successfully and generate the cash needed to repay obligations as they come due. Capacity is determined by assessing whether there is sufficient financial strength and adequate resources to start, maintain and to profitably expand operations. Inherent in "Capacity" is the assessment of business plans that claim to develop cash flows that will achieve pre-defined business ratios. For example, a Debt- Coverage-Ratio ("DCR") in excess of 1.25 is considered by almost all capital providers (banks, venture capitalists, lenders, investors, etc.) as the minimum acceptable ratio. Therefore, a DCR of less than 1.25 would be considered risky.

**Lender’s Commentary:** From a lender’s perspective, we look to repayment ratios to determine financial ability to make the payments - as agreed in the loan or investment documents. We need to see a debt coverage ratio of at least 1.25. This means that the project will have at least 25% more income (EBITDA) than required to make the debt or investment payments. A preferred (less risky) coverage ratio would be 1.4. A coverage ratio of 1.6 and above would be considered excellent – (lower risk). See table above for an example of DCR computation.

Additionally, we look at the Operations and Maintenance (O & M) budgets to assess if they are adequate. Also, projects that do not create and adequately fund a replacement reserve will
eventually have lots of deferred maintenance issues.

Deferred maintenance creates a very problematic cycle that includes: the property starts looking old, dirty and tired, tenants or customers leave, new tenants or customers require price concessions, less money is available for the O & M / reserves. As the property deteriorates, the Capacity (cash flow) to make the financing payments becomes suspect and the Collateral value diminishes quickly.

**EB-5 Investor guidance:** Generally speaking, the project’s Capacity to make the payments due the financing sources is directly tied to the operational success of the project. One of the most challenging assessments for a lender is to test all the business and financial plan assumptions to determine if they are reasonable and prudent. Many developer plans will underfund start-up costs, such as: marketing programs, the reserves for the initial operating deficit, working capital, etc. Further, they will often not be conservative enough on the time (and costs) between start-up and stabilization. If the project is thinly or even adequately capitalized and there is a cost overrun on the construction or a delay, some of the funds can (and often do) get reallocated. This can have dire consequences on the project’s later financial stabilization period, payment capacity and even job count.

**Bottom line:** Study all the revenue and expense Assumptions. Challenge them and do not invest in a project if you are not 100% convinced in the revenue assumptions and the timeline projections. If the revenue does not materialize on time, your jobs will be at risk, and so will your Green Card.

In addition to the traditional five C’s of Credit Analysis, there are two additional C’s that need to be evaluated. In many ways, they are unique to an EB-5 investment. They are:

1. The need to ensure that 10 jobs are created for every $500,000 EB-5 investment - within a 24 month period, and;

2. The need to ensure a viable exit (repayment) plan within 3 - 5 years, starting when the investment in put into the project.
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.

### 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.

**In 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 the seven C's and EB-5, please go to the Learning Center at [www.edufundamerica.com](http://www.edufundamerica.com)

**About the author:**

Gregory Wing is Managing Partner and co-founder of Education Fund of America, LLC. He is also co-founder and President of Bedford International, [www.bedfordint.com](http://www.bedfordint.com) a successful corporate finance firm founded in 1991 that specializes in real estate based lending, specialized tax solutions and corporate incentive negotiations.

Greg also co-founded and is a Principal of Green Card Fund, a USCIS-approved Regional Center in Arizona [www.greencardfund.com](http://www.greencardfund.com). He spun off Education Fund of America to be a specialized financing entity that exclusively finances charter schools via the EB-5 program through direct affiliation with Green Card Fund.

Bedford International has financed many billions (USD) to real estate developers and business entities located throughout all 50 states. Bedford Lending is an authorized commercial real estate lender for two US Governmental Agencies, HUD & USDA. This HUD lending company has financed numerous: healthcare, hospital and multifamily facilities. Bedford created a successful Wall Street based securitization entity in 1998 to finance Governmental leased properties, including US Post Offices. The Company also has operating divisions that have provided billions in specialized tax solutions and corporate incentives.

Earlier in his career Greg helped create two high tech companies and later took them public. He
was a senior executive at several Fortune 500 companies.

Greg Wing is a national speaker and published author on corporate finance and specialized corporate tax matters. He has served on numerous boards of directors at for-profit and not-for-profit business entities, including the board of directors of a commercial bank. Further, he has served in leadership positions on many civic and church organizations.

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