MARBIDCO Guidance for

MARYLAND RESOURCE-BASED INDUSTRY FINANCING FUND (“MRBIFF”) Participation Loans

(Note: the acronym is pronounced: “Mr. Biff”)

What characterizes a typical MARBIDCO project financing under the MRBIFF Loan Participation 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 new 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 as little as 0% is possible).

- MARBIDCO MRBIFF Participation loans are loans originated by a Lead Lender and are loans made to eligible borrowers and serviced by the Lead Lender. The MRBIFF Loan Participation program uses a **“First Lien / Last Out”** co-lending arrangement where the Lead Lender sells up to a 49% interest in a first priority promissory note to the Participating Lender (MARBIDCO). The Lead Lender is responsible for servicing the loan, and the two lenders share the first lien on the loan’s collateral security, but if there is a borrower default and liquidation of assets, MARBIDCO is the last to get paid out from the collection of any proceeds. (This is laid out in detail in a master inter-creditor agreement.) MARBIDCO charges a fixed below-market rate of interest on the funds it advances to the bank (which is currently 4.25%). Lead Lenders may add up to 75 basis points (0.75%) to the MRBIFF loan interest rate as a servicing fee.

- MARBIDCO MRBIFF loans may provide financing in the range of 30% (minimum) to 49% (maximum) of the total commercial financing needed to fund a project (as the bank will always provide a greater percentage than MARBIDCO). So, for example, if a borrower needs a total of $1,000,000 in commercial financing (not including any potential downpayment), then MARBIDCO’s participation in advancing funds for the project to the Lead Lender would be in the $300,000 to $490,000 range. MARBIDCO may approve loan requests with a financing share below 30% in limited circumstances, for example, when the lender is requesting MARBIDCO’s maximum loan amount.

- 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 her 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 interest rate charge of 4.25% can often strengthen a lender's review of the cash flow coverage analysis. If the Lead Lender includes up to the maximum of 0.75% as a servicing fee, MARBIDCO's share of the note would be equal to 5.00%. today. 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 project financing.
- MARBIDCO Participation Loans should be able to assume somewhat more collateral risk than a traditional commercial lender loan would ordinarily take because of the "First Lien / Last Out" structure of the participation arrangement. In most circumstances, the combined loan-to-value ratios with security interests in real estate can 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). *NOTE: MRBIFF Participation integrated poultry loans may not have a combined LTV ratio that exceeds 92%.*

How much can MARBIDCO lend under the MRBIFF Participation Loan Program?

- The maximum loan amount for the acquisition of equipment and fixed assets (including building construction) is **$350,000**. (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 **$700,000**.
- The maximum loan amount for large commercial food or fiber processing projects is **$1,000,000**.
- 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.

MARBIDCO credit requirements and underwriting 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 Ag score is 160 or above, although a lower score may be acceptable under certain circumstances.)

- All MARBIDCO MRBIFF Participation loans must involve a senior priority collateral security instrument, and loan-to-value ratios cannot exceed 100% FMV. MARBIDCO prefers that the first lien security be on the real estate being offered as collateral. MARBIDCO does not accept crops, livestock, chattel, or inventory as collateral security (although the Lead Lender may offer subordinate lien financing on other debt to a borrower).

- MARBIDCO is somewhat flexible in allowing the Lead Lender to structure the terms and conditions of its Participation loans. For example, Participation Loan repayments can be made on a monthly, quarterly, semi-annual, or annual basis, and certain loans can be offered on an interest-only basis for a period up to two years. Ultimately, the Lead Lender should structure Participation Loan Applications to meet all terms of the MARBIDCO Master Participation Agreement and the MRBIFF Loan Agreement Addendum. The amortizations of Participation loans can be for a long as 30 years, but MARBIDCO will get paid out its portion of the loan after 15 years (as a balloon).

- Please also be advised the financing of poultry farm purchases involving "pole houses" are no longer permitted (and these projects are therefore generally ineligible).

How long does the loan application and closing/funding process take?

- As a rule of thumb, we strongly advise loan officers **to submit a complete application** to the MARBIDCO Financial Programs Office **at a minimum of 30 days** ahead of the anticipated transaction settlement date (if such is known). However, it is recommended to submit complete applications 45-60 days ahead of closing, if possible, to avoid any delays. We target issuing an approval notice within 21 days of a complete application having been submitted to the MARBIDCO Financial Programs Office, with approvals often happening a little faster than this. Closing can usually occur within 7-10 days of the approval notice if MARBIDCO is in timely receipt of pre-closing Checklist items.

- 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 more than $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.

- Once the Lead Lender has been notified of MARBIDCO's approval, the Participation loan must normally be closed within sixty (60) calendar days after the date of approval unless the date is extended by MARBIDCO (in writing).

- Loan closing documents and pre-closing Checklist items are reviewed by the Office of the Attorney General (OAG), working in conjunction with MARBIDCO's lending team. A minimum of 5 calendar days should be provided for review and revision requests (if applicable). The Lead Lender is responsible for providing all Checklist items noted as "Lender" responsibility on the Checklist to MARBIDCO including the Certificate of Participation which will require signature by the Lead Lender's Authorized Officer, and MARBIDCO's Executive Director.

- Sometimes the individual circumstances of a real estate or other business transaction do not permit a 30 day 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 3 weeks but only if the factors surrounding the individual loan request are very favorable. **We strongly advise all bank loan officers to contact 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.**

What constitutes a "complete MARBIDCO participation loan application"?

- ☐ This application must be completed and signed by the participating Lender's representative and all individual borrowers.
- ☐ Lender's Loan/Credit Underwriting, including:
  - Loan Officer's Narrative
  - Balance Sheet (must be dated within 90 days of application submission)
  - Income Statements (for past two years)
  - Pro Forma Income Statements (projections for at least one year)
- ☐ Business Plan (for the next three years), if available
- ☐ Tax Returns (Both Applicant and Farm Operation, last two years)
- ☐ Appraisal (most recent copy for the real estate used as collateral).

Applications are to be submitted by email to participation@marbidco.org. The assigned MARBIDCO loan officer will respond to the Participating Lender within 2 business days.

Have More Questions?

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

- Brian Cadden, Financial Programs Specialist (bcadden@marbidco.org)
- Allison Roe, Financial Programs Officer/ Program Coordinator (aroe@marbidco.org)
- Stacy Kubofcik, Assistant Director (skubofcik@marbidco.org)
- Steve McHenry, Executive Director (smchenry@marbidco.org)