

Transaction Qualification Summary

SSBCI LendAL – Loan Participation Program (LPP)

1. Borrower Eligibility

To qualify for the Innovate Alabama Loan Participation Program (LPP), a business must:

- Be an SSBCI-eligible small business (generally defined as a business with ≤ 500 employees).
- Have a positive net worth and demonstrate financial sustainability.
- Inject a minimum of 5% equity into the total project cost.
- Provide acceptable collateral support with a Loan-to-Value (LTV) ratio not exceeding 125%, and a Loan-to-Cost (LTC) ratio not exceeding 95%.
- Demonstrate, via historic financials or acceptable projections, a minimum debt service coverage ratio (DSCR) of 1.25:1 by the second anniversary of the loan.
- Create at least one accessible, quality full-time equivalent (FTE) job per \$250,000 borrowed. Accessible jobs are defined as roles not requiring a four-year degree, and quality is defined by local living wage standards (MIT Living Wage Calculator).
- Not be engaged in prohibited activities such as gambling, pyramid schemes, illegal businesses (including those federally prohibited), or speculative investments unless incidental to core business operations.

2. Loan Characteristics

- Loan Amount: Between \$10,000 and \$5,000,000 (Lead Loan amount).
- Eligible Loan Types: Term loans, construction drawdown loans, and revolving lines of credit. Interest-only periods of up to 12 months are allowed.
- IA participates in 30% of the total loan (Last Out structure), subordinated to lender repayment.
- Personal guarantees typically required for all owners with $\geq 20\%$ stake in the business.
- Borrowers receive interest rate reductions for the first years of the loan:
 - Standard Borrowers: 0.25% reduction for 2 years.
 - Rural or SEDI Borrowers: 0.50% reduction for 3 years.
- The lender must repurchase IA's participation after 2 years (3 years for Rural/SEDI borrowers), contingent upon borrower covenant compliance and risk status.

3. Lender Participation

- Lenders retain 70% or more of each loan, satisfying the SSBCI capital-at-risk standard.
- A "supersized" servicing fee of 3.00% (3.50% for Rural/SEDI) offsets interest reduction to the borrower and creates lender incentives.
- No fees may be charged to borrowers specifically due to LPP participation.

4. Use of Proceeds

Loan funds must not be used for:

- Extraordinary dividends or owner distributions.
- Speculative businesses (e.g., commodities trading or oil wildcatting).
- Businesses with $> 50\%$ of revenue from lending, unless a certified CDFI or tribal entity.
- Pyramid sales models or businesses tied to illegal activities (e.g., marijuana-related entities).

5. Monitoring & Compliance

- Lenders must submit quarterly reports detailing:
 - Payment status
 - Outstanding balance
 - Financial covenant compliance
 - Risk ratings
- Downgraded loans require monthly updates and action plans.
- Lenders are responsible for initiating collection efforts and enforcing personal guarantees. IA concurrence is required to cease such efforts if balances remain unpaid.

6. Private Capital Leverage

- Each LPP transaction must demonstrate at least \$1 of private capital for every \$1 of SSBCI funds used.
- With a standard 30% IA participation:
 - For a \$650,000 loan, IA funds \$195,000 (30%) and the lender provides \$455,000 (70%).
 - This yields a private capital ratio of \$2.33 for every \$1 of public funds.

7. Program Parameters

- Maximum borrower size: 750 employees.
- Target average borrower size: ≤ 500 employees.
- Target average loan size: $\leq \$5$ million.
- Maximum loan amount supported: \$20 million.