Underwriting Supermarkets and Grocery Stores

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Introduction

A handful of community development financial institutions (CDFIs) have developed or begun to take steps to develop lending products for financing the needs of supermarket operators and developers of supermarkets who are located or choose to locate in low-wealth communities with inadequate access to healthy food. Financing supermarket development, expansion and preservation, whether through equipment, construction or permanent financing or a combination of lending products, not only allows a CDFI to make a high mission, high need investment resulting in expanding access to healthy food for an underserved community, but also directly and indirectly creates jobs and improves the economy. This memo draws on the experience of a non-depository CDFI, The Reinvestment Fund (TRF), which created and managed a statewide financing program in Pennsylvania designed to attract fresh food retailers, from large scale supermarkets to independent grocery operators managing stores 10,000 square feet or less in size, to underserved, urban and rural communities. Over the last decade, TRF has provided over $100 million in financing to supermarket and other fresh food retail projects in the mid-Atlantic.

The purpose of this memo is to help CDFIs understand how they can build upon existing lending expertise to improve access to healthy food for underserved communities in their geography by:

- Defining how to underwrite potential supermarket and other grocery retail borrowers and projects for financing with relevant and diverse case studies. The key metrics identified and due diligence questions suggested apply to the diverse range of potential grocery operators and projects that a CDFI may encounter, from food cooperatives and small corner grocery stores to independent or regional chains and national chain retailers; and
- Sharing lessons learned from TRF's experience lending to supermarket operators and developers in the grocery industry, throughout the memo.

Underwriting Supermarkets and Grocery Stores

Underwriting supermarkets and other potential grocery projects shares many similarities with underwriting other commercial or retail projects. In some cases, the landlord or developer of a shopping plaza anchored by a full-service supermarket is the focus of the underwriting; in other cases the subject is a tenant who will operate a supermarket in a stand-alone retail space or in a shopping center. Occasionally the supermarket operator functions as both landlord and tenant. In some instances the lender will underwrite an existing supermarket's ability to add additional debt in order to refresh their store(s) or simply replace outdated equipment. Regardless of the particular project or circumstances, there are several key factors to focus on when conducting due diligence on potential borrowers in the supermarket industry.

The following two sub-sections describe the key factors that a CDFI should address for a potential supermarket borrower and a potential supermarket project. Sometimes, the potential borrower is strong but their project is not, or vice versa. Both borrower and project must underwrite well and it is important to be able to structure the proposed loan to address risks uncovered during due diligence. In the appendices, please find a sample checklist of required documents to be submitted by loan applicants (*Appendix II*); this document will be helpful in gathering the information needed to conduct the analysis described in the following two sub-sections.

Borrower Analysis

Qualitative Factors

This list is in no particular order of priority. Operators and chains focus on different strategies and business models that require varying underwriting emphasis.

A. Location

The geographic location of a supermarket is critical to its success (1). When considering a location, an operator reviews the demographics of an area including but not limited to population, population growth, income levels, race/ethnicity, and the level of competition in an area. This research usually comes to the operator in the form of a wholesaler or supplier provided market analysis or a third-party market study. The lender should request a copy of this analysis as part of due diligence. If the proposed borrower is a developer, he or she should be able to require their proposed tenant to provide such a study for review.

Smaller operators or independent operators may not have the predevelopment funds to pay for a third-party market study; this is one area where providing a grant can be beneficial to the potential borrower as well as to the lender for due diligence.

Market research, whether internal or external, is prepared to help the operator answer the following questions about a proposed location:

- Given a store format [traditional, limited assortment, etc.], is there enough buying power [residents] in the proposed store's trade area to support the proposed store's square footage?
- Given a proposed store's square footage [or size of an expansion], what are the projected average sales per week at this location? *Average Sales per week are typically projected for the first three years to give an operator an idea of what his/her proposed stabilized sales per week may be. An operator typically has an understanding of what his/her operating business model is and thus, what level of sales are needed per week to turn a profit [or adequately cover debt service, meet covenants, etc.]. During due diligence, the lender can gain this same understanding by analyzing the operator's existing store(s) financial statements.*
- What existing competitors are in or near this location's trade area? *An operator knows how his/her store competes against certain other competitor stores. The operator will take the market research and adjust the projected annual sales for how much market share they believe they can take from the existing competitors as a result of the proposed investment.*
- What other competitor projects are proposed for in or near this location's trade area and/or what potential locations exist within the trade area that could house future competitors? For example, if there is a dark store less than a half mile from the proposed location, it is likely that the dark store could become a competitor's location in the future. The operator must consider this potential future competition and how his/her store will fare against it.

If an operator is a local or regional chain or part of a much larger supermarket chain, another factor they will consider is the chain's geographic diversification such as being localized or regional which may mitigate competition or economic risks; this relates to the market position factor described later.

B. Manager experience

The supermarket industry has low profit margins; this means that there is not a lot of margin for operator error. Further, only certain operating decisions are within an operator's direct control. Significant expenses such as the cost of food [commodity inflation] and energy and other utility costs are primarily out of an operator's control. Consequently, it is extremely important that the proposed borrower and/or his store managers have applicable supermarket industry experience for at least four to six years managing a supermarket of a similar size to the proposed store. While fewer than six years experience should not automatically disqualify a borrower, due diligence in such cases should involve ensuring that the operator has hired the required supermarket operations expertise or has dedicated access to it.

In TRF's experience, we have found that operators with less than 4-6 years management experience do not understand the ups and downs of a complete economic cycle and thus may not have the necessary skills to navigate a supermarket operation throughout an entire cycle.

C. Merchandising and Store Presentation

Merchandising and in-store presentation are key factors that aid in the success of supermarkets (1). Decisions on product mix and volume as well as store layouts and design play a role in a store's success. If the proposed project is at an existing store or the potential borrower has more than one store, the lender should conduct a site visit. In terms of merchandising, the lender should make a point, prior to the site visit, to understand the demographics of the community where the store which is being visited is located: Is the store located in a Hispanic community? Or a community that is predominately Jewish or which has a large West African population? Is it an older community or one with many young children? Then, on the site visit, the lender can observe whether or not or to what extent the operator merchandises the store to cater to the preferences of the community it serves. For example, if the store is located in a Hispanic community, look to see if traditionally Hispanic vegetables are stocked. If a significant number of customers are Indian, is there a selection of lentils, spices [cardamom, mustard seeds, cinnamon, coriander], and other Indian foods available? A successful operator [or his/her store manager] knows its customers and merchandises his/her store for the products that customers want. It is important to note that independent stores, more so than national chain stores, have greater discretion over local merchandising [i.e. deciding what products or brands to stock].

On the site visit, the lender can also observe how the store is presented to customers. Are shelves stocked? Are there boxes in the aisles? Does the produce look fresh and inviting or less than appealing? Are the floors clean? If the answers to these questions are not generally positive, it should give the lender some pause and perhaps additional due diligence is warranted. A lender should be careful, however, not to discount a store just because it has not seen significant investment in a long period — that is, the equipment shows signs of aging, the lighting is poor, etc. Rather, what the lender should be looking for is for visual cues of good or effective store management.

D. Other Factors

- Service and Amenities - Quality of service and the number of amenities provided often are critical in the success of a supermarket (1). As would be expected, successful supermarkets tend to have high quality service and offer a number of amenities such as prepared foods, flowers, or a pharmacy.

- Technology - As discussed previously, having access to the latest technology is critical for success (1). As competition increases, the ability of a store or chain to gather, analyze, transfer, and share data is more important than ever. Technology plays a role in each of these functions but using it properly allows stores to be more efficient and profitable.
- Market position - Generally, successful supermarkets hold the number one or two market position in a specific area (1). While those not having a leading market position can still manage successful businesses, supermarkets tend to have better marketing and distribution leverage when they are in a leading position. As a result, many chains leave areas where they do not have a strong presence and focus on expanding in regions where they have a leading market share.
- Close Competitor Analysis - Since there is little product differentiation among most supermarkets, competition needs to be monitored closely, especially when it comes to pricing strategies (2). Pricing and competition's pricing is critical in this industry because most products have a small markup and profits are generated by selling a large volume of these goods.
- Workforce Access - Supermarkets need to have access to a skilled and flexible workforce (2). There is high employee turnover within the industry yet the industry requires a large amount of manual labor. Another factor when considering workforce decisions is the long operating hours of most supermarkets.

Quantitative Factors

The list is in no particular order of priority. Operators and chains focus on different strategies and business models that require varying underwriting emphasis.

Some of the most important documents that a lender should request a potential borrower to provide as a part of his/her due diligence are historical financial statements (the last three years of statements are preferred). Depending on the level of sophistication of the borrower, the historical financial statements may take the form of audited, accountant reviewed, or accountant prepared financial statements or tax returns. If a potential borrower provides company prepared financial statements, be sure to ask for tax returns for backup.

The lender should review the historical financial statements alongside the project proforma. What if the store is a new store and does not have historical financial statements? That is, the borrower only provided a proforma for the new store. The historical financial statements of a potential borrower's existing store will still be very helpful; they will provide the lender with a strong idea of the potential borrower's operating experience. *Historic performance is the best forecaster of future performance.*

For all of the metrics highlighted in the following sections, the lender should look for trends. Is the sales growth stable year over year? Are the gross margins improving? Is the operating profit margin deteriorating? What are the potential borrower's metrics relative to their peers [peers by total asset size or annual sales]? Then, the lender should look for answers or explanations in the financial statements. For example, maybe during the analyzed period, the operator's lease was up for renewal and the new lease was not as favorable as the expired lease; consequently, rent as a percentage of sales increased and the impact was a lower operating profit margin. The lender should also discuss the observed trends and ask the operator questions about unusual trends or aberrations of a stable trend.

A. Key Income Statement Metrics

A first step in financial analysis is to review key components of the income statement, also known as a profit-and-loss statement. Since grocery retailing is subject to seasonal factors as in all retailing, it is advisable to compare similar time periods across years rather than to look at results from one quarter to the next (p. 25, (4)).

- **Sales or Revenues**

  Sales or revenues may be reported as a single annual number or broken out into categories of sales, i.e. produce, meat, dairy, general merchandise, etc. If a potential borrower is able to provide sales by category, this is preferable as knowing these details can help a lender understand margin differentiation; i.e. some product categories carry a higher gross margin than other product categories [See Category Management definition in *Appendix I*].

  A lender should review historic sales in a couple of different ways in addition to analyzing sales trends:

  1) **Sales per week** - if reviewing annual sales divide by 52 weeks YoY sales and if reviewing quarterly sales, divide by 13 weeks on average. Viewing average sales on a weekly basis is common in the supermarket industry.
  2) **Sales per square foot** – calculated by dividing annual sales by total square feet of selling space. Viewing sales per square foot is common in the retail industry, including supermarkets.

- **Gross Margin**

  A grocery store's product mix and its operational efficiency are reflected in its gross margins. Expressed as a percentage of gross sales, gross margins are **calculated as net sales minus the cost of goods sold (COGS)**. Pricing and cost control are two key influences on gross margins. To analyze gross margins, it is important to compare year-to-year changes and variances with similar size grocery competitors. For example, higher product costs can reduce a supermarket's gross margins. However, product cost inflation also affects an operator's competitors and can push all operators to compete on pricing as they struggle to defend market share. These lower pricing practices hurt margins (p. 27, (4)). COGS often includes more than the cost of grocery dry goods, produce and other merchandise. Shipping, vendor discounts [wholesalers typically provide a pre-determined purchasing discount to operators based on the volume of goods they purchase], and shrinkage [waste – broken, spoiled or otherwise unsalable goods and loss from customer/employee theft] are often included in COGS and they may or may not be shown separately on the income statement.

- **Inventory Management**

A supermarket retailer typically has 40% to 50% of its assets invested in inventory. Managing inventory efficiently is crucial to profitability for a supermarket where net profit margins are generally only 1-2% of sales (1). Technology plays an increasingly important role in helping supermarket operators manage inventory as they work to continually refine their product mix and pricing strategies to ensure they are meeting consumer demand and maintaining profitability.

Inventory turnover can serve as a measure of the effectiveness of an operator's inventory management system, whether that system is manual, which is the case for many smaller and rural operators, or computer-based, which is a requirement for any medium to large supermarket operator to compete effectively. Inventory turnover, or the rate at which goods are sold, is **calculated as cost of goods sold** (recorded on the income statement for a given period) **divided by average inventory** (recorded on the balance sheet for the same period). A high turnover rate is indicative of efficient inventory management which can result in higher gross margins (p. 26, (4)).

- **Operating Expenses**

A supermarket's operating expenses may be lumped together into one line item or detailed into many different line items, from staff costs and store supplies to utility costs and depreciation and amortization. The more detailed the costs are, the more informed a lender's analysis can be. The lender should calculate each expense as a percentage of annual sales (essentially, the lender should create a common size income statement.) and observe how the percentages change across the reviewed years. An example:

> Utility costs, after COGS and personnel costs, tend to be a significant operating expense for supermarket operators because it takes a great amount of continuous energy to operate all of the refrigeration, freezers and lighting in a grocery store. Let's say that utility costs for a traditional format, 10,000 square foot store have averaged approximately 3.5% of sales for the last three years. The equipment used in this store, was part of a package deal when the store was purchased by the existing owner in 1988. That means, this equipment is at least 23 years old (but probably much older as it is unlikely that the seller/operator purchased all new equipment and then sold the store). The current owner/operator is proposing to renovate the store including replacing all of the aging equipment with new equipment. The lender underwriting this loan should adjust his/her proforma to recognize the benefit of this investment, lower utility costs. Perhaps projecting future utility costs at 3.0% of sales is warranted. Or maybe, the investment is necessary simply to manage rising utility cost and projections should stay at 3.5% of sales. Either way, the lender can be more confident in his/her projections because he/she knows the basis for their assumptions.

Each line item that a lender can take through the latter described analysis process, they should. Understanding the expenses gives a lender confidence in asking questions of the potential borrower and how they derived at their projections. If an operator's rent expense was 5.0% of sales and is projected at 3.0% for the forecast period, the lender should question the potential borrower about the significant difference. Maybe the operator negotiated a very good lease or maybe not. A lender should understand the basis of the assumption before accepting it for his/her projections.

- **EBITDA Margin**

  EBITDA is an acronym for **Earnings before Interest, Taxes, Depreciation and Amortization**. A lender should **calculate EBITDA by adding Interest, Taxes, Depreciation and Amortization to Net Income**. Then, **divide this number by annual sales to calculate EBITDA Margin.** EBITDA is a much more useful measure for comparing supermarket peers than net income margin because it does not include the effects of finance and accounting decisions. That is, it tells us what the cash generated by the supermarket's operations is before non-cash adjustments (depreciation, amortization) and finance

  adjustments (interest expense, taxes). On the other hand, it should not be used as a measure of cash flow because it does not include the impacts of working capital and necessary capital expenditures (capex).

  EBITDA is used in the numerator of a calculation described later in this memo, debt service coverage.

B. Key Balance Sheet Metrics

The balance sheet reports the major categories and value of assets, liabilities and stockholders' equity at a specific time. Typically, lenders welcome a strong balance sheet and avoid a highly leveraged one (p. 26, (4)). A lender usually reviews a balance sheet on an annual basis; however, having access to quarterly balance sheets can be helpful especially when he/she senses that a borrower or potential borrower is having financial difficulty. The negative trends will reveal themselves quickly in some balance sheet metrics.

- **Liquidity Ratios**

There are a variety of liquidity measures that a lender typically uses to analyze a potential borrower's short-term financial situation. Due to the cash nature of the supermarket business [and really, most retail businesses can be characterized as cash businesses], some of these measures are more relevant than others. For example, let's look at the **current ratio which is calculated as total current assets for a period of time divided by total current liabilities for the same period of time.** For supermarkets and other grocery stores, the current ratio tends to be between 1.0 and 2.0; the lower the annual sales, the higher or stronger the ratio. If a potential borrower's current ratio is 2.0, what does that really tell a lender? (5) Not much, when the potential borrower is a supermarket. Current assets include inventory, pre-paid assets, and other fairly illiquid assets in addition to cash and cash equivalents. When analyzing a potential borrower's liquidity, a lender is trying to answer the question of whether or not a company has enough cash available to meet its current obligations should they come due; or more likely, does the operator have enough cash on hand to pay vendors (wholesaler, other suppliers) and to weather a storm.

The **Quick Ratio**, also sometimes called **Acid Test Ratio**, is more illustrative for a supermarket operator than the current ratio because it does not include assets such as inventory, which an operator would have to sell to have cash available. The **quick ratio is calculated as current assets minus inventory for a period of time divided by total current liabilities for the same period of time**. For supermarkets, the quick ratio is generally .50 or less (5). Of course, because inventory is almost always purchased on credit, the lender should remember that the denominator in the ratio, current liabilities, includes accounts or trades payables.

Both of these ratios reinforce the cash nature of the supermarket business which tends to make the relationship of current assets to current liabilities relatively unimportant. After all, it is gross cash flow, not the liquidation of current assets that supports current liability levels.

Another measure of the cash nature of the supermarket business [and retail businesses in general] is reviewing a company's working capital position. Working capital is calculated simply as **current assets for a period of time minus current liabilities for the same period of time**. It is important to monitor working capital trends in retail businesses because the businesses need to be able to purchase inventory in order to have goods to sell, which in turn results in the cash required to purchase more inventory.

> **A lender has to make sure he or she has the whole story. If a potential borrower has negative working capital, a lender should not immediately consider them a higher risk; rather, the lender should consider other measures related to working capital including the latter described and the cash conversion cycle which is described next.**

The Cash Conversion Cycle (CCC) measures working capital efficiency; that is, it tells a lender how long in days it takes a business to generate cash through its operating model. Three turnover ratios are used to determine a business's CCC:

- Accounts Receivable Turnover – **calculated as Accounts Receivable ÷ Sales**;
- Inventory Turnover – **calculated as COGS ÷Average Inventory** (calculation described earlier); and
- Accounts Payable Turnover – **calculated as Accounts Payable ÷ COGS**.

To convert each of these turnover ratios to "days," the lender should multiply or divide the whole calculation by 365 days:

- Days Sales Outstanding - **calculated as Accounts Receivable Turnover x 365** or **(Accounts Receivable ÷ Sales) x 365**
- Inventory Days on Hand - **calculated as 365 ÷ Inventory Turnover** or **365 ÷ (COGS ÷ Average Inventory)**
- Days Payable Outstanding - **calculated as Accounts Payable Turnover x 365** or **(Accounts Payable ÷ COGS) x 365**

Finally, all three "days" calculations are combined to compute CCC:

- **Days Sales Outstanding (DSO) + Inventory Days on Hand (DSI) – Days Payable Outstanding (DPO) = CCC**

Since customers in supermarkets, like in most retail businesses, pay for goods through cash or credit card sales, the DSO is usually very few, if any days; cash receipts are immediate. A lender should analyze the DPI measure relative to the supermarket industry and relative to a potential borrower's peers, because while a high DPI might be positive in some industries, in others, it could be a red flag. A DPI between 20 to 40 days for a supermarket is a good rule of thumb. On the higher end, a lender might be a little concerned, because it means the operator is only turning inventory once every 5-6 weeks on average. This average is more common in rural areas, but in an urban area a lender might wonder if the operator has a good handle on his pricing relative to competitors. Very low days inventory on hand or DSI is generally seen as positive; however, it could also mean that an operator is prone to having many products out of stock. In the supermarket industry, it is fairly rare to see a DPO above 20. Larger supermarkets (greater sales) and supermarket chains tend to have better terms (above 10 days) than smaller supermarkets (lower sales) and those in less populated areas (below 10 days is more typical). In most cases, the levels of accounts payable will equal or exceed inventory levels. In other words, an operator can effectively sell inventory one or more times over before paying for it (p.65, (6)).

The DPO can be one of the most informative measures of the health of an operator because it tells a lender how long it is taking an operator to pay his suppliers, generally one primary wholesaler. On the other hand, a high DPO can mean that the operator has a strong relationship with their wholesaler and has better credit terms than their peers. If a lender sees a sustained high DPO trend, he/she should ask the potential borrower about their relationship with their wholesaler.

As described, each individual calculation, DSO, DSI, and DPO, provides a lender with a piece of information. When combined and compared across a reviewed period of time, the CCC calculation (DSO + DSI - DPO) paints a picture of an operator's overall working capital efficiency, illustrating how well a business is operating.

- **Leverage Ratios**

First, there is no optimal amount of long-term debt (leverage[1]) that a company should carry. Leverage ratios provide a lender with information about how a business finances its investments and a business's ability to meet financial obligations. A couple of leverage ratios are highlighted here:

Leverage to Tangible Net Worth Ratio - This ratio is calculated as **Total Debt (Total Liabilities) ÷ Tangible Net Worth**. This ratio is sometimes called the Debt Ratio. It tells a lender how a business finances its investments; the higher the ratio, the more leverage a business uses to finance its investments. A lender prefers to see a lower ratio. What an acceptable ratio is depends on what other risks the potential borrower may present and how the lender is able to mitigate those risks.

Tangible Net Worth (TNW) **is calculated by subtracting Intangible Assets from Total Assets (Total Assets – Intangible Assets) and then subtracting Total Liabilities.** Total calculation: TNW = (Total Assets – Intangible Assets) – Total Liabilities. TNW is sometimes called Net Assets. Unless a supermarket operator has been growing by purchasing other supermarket operations, the operator may not have intangible assets. This ratio is sometimes called the Debt Ratio. It tells a lender how a business finances its investments; the higher the ratio, the more leverage a business uses to finance its investments. Lenders usually prefer to see a lower ratio. An acceptable ratio depends on what other risks the potential borrower may present and those risks can be mitigated. Similar to retained earnings, a lender prefers to see a TNW value that is positive and growing over time. If an operator is a start-up or has been in existence for only a few years, the TNW may be negative, but the trend should be positive (moving towards positive TNW).

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[1] There are multiple definitions of leverage. The one used here is leverage as debt financing.

C. Key Cash Flow Metrics

Typically reported quarterly, the statement of cash flows records all changes affecting cash for operations, investments and financing. The statement reveals a company's cash position and its ability to generate cash, *i.e.*, its free cash flow. Working capital needs, which as aforementioned are high in the grocery industry, and capital expenses can result in consistent net cash outflows. In such cases, it is important to reference the level of cash an operator is maintaining on the balance sheet to determine how long the operator can fund itself before it will need to add short-term or long-term debt to meet its cash needs.
Free cash flow (FCF), **defined as a firm's net income before depreciation and amortization minus capital expenditures minus changes in working capital**, often predicts a company's future health. A simple way to calculate FCF is FCF = EBITDA – Capital Expenditures – Changes in Working Capital. Capital Expenditures (Capex) is defined as cash used to finance new or improvements to physical assets (equipment, leasehold improvements, etc.).

Low or negative FCF may impede a company's ability to grow or may force it to raise capital to continue operations (which can be costly). However, low or negative FCF may also mean that a company is making significant investments which can have longer term payoffs. A lender must consider each of these measures and calculations in context. A company that generates strong FCF can use this excess cash to fund additional capital investments, repay debt, or more; a company with strong FCF has financial flexibility.

Two additional cash flow metrics that a lender will find themselves relying heavily on to evaluate a potential borrower's ability to service the proposed debt are the Fixed Charge Coverage Ratio (FCCC) and the Debt Service Coverage Ratio (DSC). A lender may use one or the other or both depending on the nature of a potential borrower. Specifically, if a potential borrower tends to lease real estate rather than own real estate, the FCCC ratio will be more informative regarding a potential borrower's true capabilities to service additional debt.

As tends to be the case across most retail sectors, in TRF's experience with supermarket operators, it has been more common for them to lease store locations than to own real estate.

The FCCC Ratio describes the ability of a company to pay its debt service obligations from its operating cash flow. It is **calculated as the retailer's operating cash flow divided by the sum of its interest expenses, current debt maturities and lease payments**. **To simplify, use EBITDA for operating cash flow.** In businesses where the largest balance sheet differences lie in how much real estate is owned or leased, both interest and lease payments must be included in fixed charges.

The DSC Ratio also describes the ability of a company to pay its debt service obligations from its operating cash flow. It is **calculated as the retailer's operating cash flow [use EBITDA] divided by the sum of its interest expenses and current debt maturities.**

For both ratios, a value of 1.0 or greater indicates that the business [or project in the case of a developer] generates sufficient income to cover debt service. TRF typically requires a minimum DSC ratio of 1.20x – 1.25x for supermarket projects and a FCCC ratio of not less than 1.10-1.15x. The minimum ratio values indicate the risk that a lender is willing to accept. *Appendix III* is a sample Supermarket Underwriting Rating Matrix which is used by a lender to define the level of risk of a proposed financing request. Under the *Repayment* measure, you will see different acceptable ratio ranges for each rating (Above Average, Satisfactory, Below Average, etc.). Keep in mind, that what is acceptable may range depending on the phase a project is in. For example, a supermarket under construction does not generate cash; debt service coverage during the construction period will be below one unless a construction interest rate reserve is built into the development budget.

D. Non-Financial Statement Factors

Beyond qualitative factors and financial statement analysis, a lender needs to conduct due diligence on the potential resources that can aid him/her in shaping a proposed deal. Do potential public or private guaranty programs exist for financing supermarkets and other healthy food retailers in my geographic area? Would the proposed financing be eligible? How can I structure the proposed financing to benefit from existing SBA or USDA programs?

On the borrower level, the lender should underwrite the value of a personal guaranty the operator or operator owners if there are multiple business owners. TRF typically requires all owners with 20% or more interest of a Borrower to personally guarantee financing. TRF typically requires that loans be full recourse personally to owners regardless of the value of an owner's personal guaranty. However, a guarantor's with significant financial strength is a stronger risk mitigant than a guarantor with limited net worth. In *Appendix IV*, the lender will find a standard personal financial statement form and a sample credit authorization form, both of which TRF uses to determine the strength of a guarantor. The lender should require that the proposed borrower (if a person) and/or the proposed guarantor(s) sign and date their personal financial statement; the information provided should be recent enough that it is useful for the lender (i.e. Info as of December 2010 if you are underwriting a deal in March 2011). Also, the lender should request a list of the person's contingent liabilities – this list generally consists of other debt for which the person has provided a guaranty. An executed credit authorization request form authorizes a lender to conduct a background information check including pulling a credit report on the signer.

Also included in *Appendix IV* are a sample personal financial statement analysis spreadsheet and a personal cash flow analysis spreadsheet. Both analyses are important for painting a complete personal financial picture of the proposed borrower and/or guarantor(s) because one provides reports on financial status at a particular point in time and the other provides the lender with information about the person's ability to meet personal obligations from annual cash flow. In order to conduct the latter analysis, a lender must require the proposed borrower and/or guarantor(s) to provide their last three years of personal tax returns.

TRF's loan documents (commitment letter, loan agreement, and mortgage) almost always include financial reporting covenants that require the proposed borrower and guarantor(s) to provide a signed personal financial statement and a copy of their personal tax returns annually to lender.

Project Analysis and Deal Structuring

A. Proforma

The introductory paragraphs in the *Quantitative Factors* sub-section of this memo describe the importance of having historical financials to analyze when underwriting a proposed project. Historical financials are most helpful to a lender when he/she is projecting a store's future performance [and/or adjusting the borrower's assumptions] in order to determine what debt load the operating business can *carry* and adequately cover debt service, that is, meet debt service coverage requirements [e.g. DSCR > 1.20]. In most cases, a good starting point for a store's projections for expense line items is the store's historic expense line items as a percentage of sales; then, the lender can make an adjustment to the projections to account for the project or investment being made.

For example, if utilities (electrical, gas, water) for a small independent operator have averaged 3.10% of sales for the last three years, the store's projections for utilities might also be about 3.10% of sales. If the proposed project includes the replacement of all aging equipment with energy efficient equipment and additional energy saving measures such as LED lighting, day-lighting, and adding insulation to the roof, then, a slight adjustment downwards to the utilities expense line item might be warranted; that is, the lender may adjust utilities expenses at 2.90% of sales for the projected years to recognize the energy benefits of utilizing energy efficient equipment and undertaking energy savings measures.

The lender should perform the latter analysis for each expense line item where he/she has the historic detail, paying close attention to the expense line items that have the largest impact (i.e. those expenses that are the larger percentages of sales) such as gross margin, staff expense (including benefits), and occupancy expense (D&A, rent, etc.).

If a store is a start-up and there are no historic financials for the lender to use as a basis for his/her projection assumptions, the lender should have required a market study, which he/she can use to guide their projections. In addition, there are industry databases available for purchase that provide a solid basis of expenses (as a % of sales) that a lender should expect for a store with $X revenues.

Scenario Analyses

After a lender has created a realistic set of projections for the store / proposed project, he/she should stress test some of the key metrics to understand what happens to debt service coverage if sales grow more slowly than expected? Will I (the CDFI) be paid? Stress testing or creating various scenarios, including a worst case scenario, helps a lender to determine which drivers of the projections or business model have the most impact and what risks the lender should take measures to mitigate. Typically for supermarkets and grocery stores, TRF performs various sales scenarios and gross margin scenarios:

Sales Scenarios

a) Sales grow faster than expected (over the first three years);
b) Sales grow more slowly than expected (over the first three years); and
c) Sales stay the same (over the first 3 years).

Gross Margin Scenarios

a) Gross margins slightly improve (1-1.5% over the first three years);
b) Gross margins decline to below historic levels (.50% - 1% over the first three years); and
c) Gross margins remain at historic levels (no change over the first three years).

TRF looks to see the impact on EBITDA and DSCR under each of the various scenarios; typically, gross margin deterioration has a greater impact on debt service coverage than the sales scenarios. Consequently, in underwriting, TRF focuses on the gross margin projections and making sure the assumption is realistic and founded. A sample gross margin scenario analysis from a recent credit memo:

Scenario 1 reflects *gross margin deterioration to slightly below historic levels* compared to the historic level gross margin reflected in the projections. Specifically, the first year's gross margin has been reduced from 23.50% to 23.00%; with all outward years stabilizing at 23.00%. All other variables are the same as the projections. Debt service coverage for proposed debt dips significantly in all years and especially in Year 1 when it dips to 0.94x, well below the required minimum DSC of 1.25x. However, debt service coverage remains adequate for outward years, even with the gross margin deterioration.

Gross Margin Deterioration	2009 Actual	Year 1	Year 2	Year 3	Year 4
Sales	$9,700,000	$11,700,00	$13,460,000	$14,800,000	$15,600,000
Sales Growth	5.0%	20%	15%	10%	5%
Gross Margin	24.50%	**23.00%**	**23.00%**	**23.00%**	**23.00%**
EBITDA	$490,500	$202,100	$279,000	$339,000	$356,000
DSCR – Debt		0.94x	1.30x	1.55x	1.62x

B. Collateral

A lender financing supermarkets and other healthy food retailers must consider a range of potential collateral types and often two or more different collateral types in conjunction with one another. The purpose of this section is to provide an overview of the key collateral types with which TRF has secured supermarket loans and to highlight important points that a lender should consider about each collateral type. Please note that the narrative below is not a recommendation; lenders should seek outside counsel for specific rules around collateral types and securitization.

First, collateral can be divided into two categories, real estate and personal property. Real estate collateral includes the fee simple estate and leasehold improvements.

- Fee Simple Estate – If the proposed borrower owns the property which he/she intends to develop, expand, or renovate, the lender may choose to secure the proposed loan with a fee simple mortgage or an interest in the fee simple real estate. Two points that a lender should consider: 1) There may be existing creditors on the property and the lender may have to take a subordinate position, refinance the existing debt on the property, enter into an intercreditor agreement or other action; regardless of the action taken, there are other parties that the lender will have to interact with; and 2) The potential borrower or a related entity may own real property which, if not fully encumbered, the lender could consider for collateral or additional collateral. Though, in the latter instance too, the lender will encounter other entities to negotiate with.

- Leasehold Improvements – Securing a loan with a leasehold improvement mortgage on the tenant's (lessee) leasehold estate essentially gives the lender the right to foreclose on the tenant's interest in the lease and take it over. The key is the lender has the right to use the leasehold improvements not to remove leasehold improvements. An assignment of a lease results in a similar right though it does not include the idea of possession and use of the tenant space as allowed under the lease. Two points that a lender should consider regarding a leasehold mortgage or assignment: 1) The length of a lease is important; if the tenant fails in year two of a five-year lease, will the lender be able to recoup its investment in the remaining three years?; and 2) Traditional real estate value factors apply to a lease. That is, location, location, location is very important when considering the lender's ability to release the improved space if the tenant (borrower) fails.

Personal property includes all collateral that is not real property - equipment, inventory, cash, letters of credit, cash value of life insurance, etc.

- Equipment – TRF typically limits equipment financing to new equipment only; however, if existing equipment is offered as *additional* collateral, we would consider adding it to our collateral package as well. With few exceptions, the only way to perfect a lender's interest in equipment collateral is to file a UCC-1 financing statement under the Uniform Commercial Code in the state in which a borrower is organized. Two points to consider: 1) UCC's expire five years from the date of filing) and the onus is on the lender to renew, so create a tickler; 2) The rules around creating and perfecting a lender's interest in personal property are addressed in article IX of the UCC and should be addressed with outside counsel – different rules apply to the different personal property types and rules differ by geography.
- Inventory – TRF does not typically finance inventory. If it is a part of the collateral package, TRF does not attribute a value to it. If a lender is considering accepting inventory as collateral, they should address with outside counsel the specific rules that apply to inventory under the UCC.

Cash, Letters of Credit, and any other personal property of the proposed borrower or affiliated entities of the borrower, can also be pledged as collateral or additional collateral to secure a deal.

C. Secured Loan Structural Considerations

- Loan Terms – The terms of a proposed loan should be structured considering at least the following: 1) the source(s) of financing and its requirements; 2) the type of financing (acquisition, construction, equipment, etc.); and 3) the proposed collateral.
- Loan Sources - If the source of the proposed debt financing has an 80% loan to value requirement, then the size of the proposed loan may be smaller than the request. Also, if the source of the proposed debt financing has a minimum 1.20X DSC ratio requirement and the project proforma shows DSC of 1.15X, the size of the proposed loan will have to be reduced to meet the requirement. A source may have equity requirements or limitations on what it can finance (e.g. some loan sources can only

fund capital uses, not working capital, inventory, training, and other cash needs typical of a supermarket project). These are just a few examples of the impact on loan terms of financing sources.

- Loan Types – Different loan types, whether it's an acquisition loan or a permanent loan, carry different risks and loan terms should be structured to respond to the particular risks of each loan type. For example, acquisition loans typically have very short terms, two years or less, because it is expected that the loan will be taken out by construction financing. If a lender provides an acquisition loan with a long term, say ten years, then the borrower may not focus on attracting construction financing for his/her proposed project; consequently, the lender may be holding a loan for a property that does not generate income necessary to provide the loan adequate DSC.
- Proposed Collateral – Loan terms should consider how quickly the value of different types of collateral depreciates. This is particularly important when considering equipment as collateral. TRF estimates that equipment value depreciates over a period of seven years; consequently, TRF's equipment financing loans for supermarkets tend to have a maximum term of seven years <u>and</u> fully amortize over that same period (or amortize over a short hypothetical term of ten years). TRF's real estate loans tend to amortize over a longer period of time (20 to 25 years).
- Personal Guarantee – As described earlier, a personal guarantee can be a very valuable deal structuring tool for a lender. If the guarantor is strong, not only does a guarantee act as a strong risk mitigant to deficient collateral should a loan fail, but it also provides a *skin in the game* qualitative characteristic that helps align the borrower's and lender's interests.
- Covenants – A lender should consider incorporating debt service coverage covenants, debt covenants, and financial reporting covenants, into their proposed supermarket financing deals. TRF often includes these covenants for larger size deals and for real estate - leasehold improvement financing deals.
- Debt Service Coverage Ratio (FCCC or DSC, whichever is most relevant) - Among covenants, the most important is a store-level FCCC or a DSC covenant. If loans to finance multiple chain store locations are cross collateralized and cross defaulted, such covenants can be made at an aggregate store level; this makes sense, because typical large chain store operators lose money in 10-20% of their locations and requiring each store to perform individually can be excessively burdensome. By having an aggregate FCCC or DSC ratio test, a lender can monitor the health of the primary source of loan repayment— the stores securing the loan. In the event that the aggregate store-level FCCC or DSC ratio falls below the covenant, a lender has the option of requiring loan repayment, loan reduction, or collateral substitution. Provided the borrower is healthy, it may have the financial flexibility to accommodate such a request and assure loan quality maintenance. Cash flows from stores that a lender does not have as collateral represent a secondary repayment source but not one that can be prudently relied upon for the long term (page 56, (7)).

In TRF's own portfolio, it is common for regional and chain supermarket operator borrowers [operators of 10 to 20 store chains] to have negative EBITDA margins at some of their locations (<20%). A grocer may continue to operate certain store locations even if they lose money for several reasons including 1) the operator does not want to see a competing grocery chain enter into the vacated location (particularly if doing so would reduce their own market share in a market beyond first or second position); 2) closing or selling the store might reduce their supplier purchases in an amount that would put them into a lower price benefit or rebate tier with their primary supplier; and/or 3) if the operator owns the store, they may have a waiting or real estate redevelopment strategy that they are not ready to execute yet. Consequently, it is important for a lender to view the aggregate financial health of a multi-store operator rather than simply viewing each store on a stand-alone basis.

- Debt Covenants – If a proposed borrower is highly leveraged and additional debt, beyond the lender's financing, would decrease the lender's debt service coverage, thus, increasing the risk profile of the borrower, a lender might consider adding a maximum debt ratio covenant. A lender can also prohibit a borrower from adding additional long-term debt without the lender's approval; the latter could be added as a negative covenant.
- Financial Reporting – As mentioned in the borrower/guarantor personal financial statement analysis section earlier, financial reporting requirements should be included as a covenant in a lender's legal documents. TRF typically requires borrower financial statements (whether we require the statements to be audited, reviewed, or compiled by an accountant or the company depends on the sophistication of the particular borrower and the size of the loan) and guarantor financial statements (if a business) annually. Finally, TRF requires guarantors to provide signed personal financial statements annually that include an updated list of contingent liabilities. Also, it is suggested that a lender retain the right to pull a credit report annual for existing personal guarantors.

If the borrower is a start-up project, TRF may require monthly financial statements for the first 18-24 months of the store opening or until a defined stabilization benchmark.

Case Studies:

The Fresh Grocer at LaSalle

Sprankle's Neighborhood Market

Weavers Way

THE FRESH GROCER AT LA SALLE

By The Reinvestment Fund

THE FRESH GROCER AT LA SALLE
Philadelphia, PA

SECTORS: Retail

GEOGRAPHY: Urban; Low/Moderate Income Census Tract

WEBSITE: http://www.thefreshgrocer.com/

OWNERSHIP TYPE: For-Profit Business; Large, Regional, Independent Supermarket Operator

PROJECT DESCRIPTION: New Construction; Large Format

YEAR STORE OPENED: 2009

NUMBER OF STAFF: 253

SQUARE FOOTAGE: 50,000

TOTAL REVENUES: $17.5 million

SOURCES OF CAPITAL: $3.325 million in financing from the Pennsylvania Fresh Food Financing Initiative, consisting of $500,000 in grant funding and a $2.825 million loan. $3 million grant funds from the State's Redevelopment Assistance Capital Program and $2.825 million in loan funds from the State's Machinery and Equipment Loan Fund. $4.9 million in New Markets Tax Credit Financing from TRF, including $250,000 in leverage loans from Recovery Act funding. Other sources of leverage financing include Bancorp and TRF.

OTHER FINANCIAL SERVICES NEEDED: N/A

IMPACT/OUTCOMES: The Fresh Grocer at LaSalle is the first grocery store in 40 years to operate in its North Philadelphia neighborhood, bringing increased access to affordable, fresh foods to the community. The store has created 253 full- and part-time jobs, adding to The Fresh Grocer's total employment in Philadelphia of over 1,200. Of the LaSalle store's new hires, 98% are Philadelphia residents and 77% reside in the store's catchment area. The Fresh Grocer at LaSalle anchors an 80,000-square foot retail center known as "Shoppes at LaSalle" and boasts several environmentally friendly features.

The Fresh Grocer supermarkets serve diverse communities across the Philadelphia area. Located in underdeveloped neighborhoods in the city, many of these supermarkets are the first stores to be developed in many years. Local residents benefit directly from the stores' products and also from employment opportunities as The Fresh Grocer employs over 1,200 residents from the City of Philadelphia. With financing from TRF, the Fresh Grocer opened its ninth store in Northwest Philadelphia. Located on LaSalle University's campus, the supermarket's opening marked the presence of a grocery store in this North Philadelphia neighborhood for the first time in 40 years.

The 50,000-square-foot supermarket created 253 full- and part-time jobs and anchors an 80,000-square-foot retail center called the Shoppes at LaSalle. Of those hired for the new store, 98% are Philadelphia residents, 77% are residents of the Northwest Philadelphia area where the store is located. Not only does the store increase food access and create jobs for the neighborhood, it is new construction in an area that hasn't seen anything built in years. The project sits across from La Salle University and is constructed on land the school has leased to the developer.

"This unique project represents the cornerstone of La Salle's vision for revitalizing the community surrounding its campus, and serves as a model for creating community assets through creative partnerships," said Bill DeVito, executive assistant to the president at La Salle University.

Development of the La Salle store cost $14 million. The Fresh Grocer received a $500,000 grant through the Pennsylvania Fresh Food Financing Initiative (FFFI) towards the higher costs associated with constructing in an urban environment. The store also received a $3 million grant from the State of Pennsylvania's Redevelopment Assistance Capital Program, a grant program for the acquisition and construction of regional economic, cultural, civic and historical improvement projects. The supermarket's permanent financing came through $4.9 million in New Market Tax Credits (NMTC) from The Reinvestment Fund. The NMTC financing included $250,000 in Recovery Act funding and leverage loans from Bancorp and TRF. The store also received a $2.825 million loan from FFFI and another $2.825 million in loan funds from the state's Machinery and Equipment Loan Fund towards equipment.

President of the Fresh Grocer, Pat Burns and Pennsylvania State Representative Dwight Evans worked together closely to attract the capital necessary for the project. Representative Evans has strong ties with the local community. He is a graduate of La Salle University and was the catalyst behind the Pennsylvania Fresh Food Financing Initiative, successfully advocating State support for a program to increase access to fresh foods in underserved communities.

Burns credits the NMTCs for helping the project secure capital from a conventional bank. NMTCs lower debt service also allowed the store to accommodate the additional costs associated with opening a supermarket in an urban location.

TRF also offered the supermarket operator its financial expertise, helping to structure the debt and create a financial model to keep the store profitable. “The object of this is not just to build a store and then four years later go out of business … [TRF is] building models for store[s] to work,” Burns shared.

The Fresh Grocer at La Salle also has many environmentally friendly features like a white roof which reduces the heat gain on the building and immediate surrounding area. Other green features include state-of-the-art refrigeration and energy management systems designed to significantly reduce energy consumption.

SPRANKLE'S NEIGHBORHOOD MARKET

By The Reinvestment Fund

SPRANKLE'S NEIGHBORHOOD MARKET
Vandergrift, PA; Apollo, PA

SECTORS: Retail

GEOGRAPHY: Rural; Low/Moderate Income Census Tract

WEBSITE: N/A

OWNERSHIP TYPE: For-Profit Business; Small, Regional Independent Grocer

PROJECT DESCRIPTION: Generational Transition of Supermarket Operator and Acquisition of Family-Owned Stores, Which Were Sole Supermarkets in Their Towns.

YEAR STORE OPENED: 2007

SQUARE FOOTAGE: 8,500 sq. ft. (Vandergrift store); 10,000 sq ft. (Apollo store)

NUMBER OF STAFF: 25 people each

TOTAL REVENUES: $3 million (Vandergrift); $2.5 Million (Apollo)

SOURCES OF CAPITAL: $1.2 million FFFI loan; $248,000 FFFI grant

OTHER FINANCIAL SERVICES NEEDED: N/A

IMPACT/OUTCOMES: The grant and loan combination from FFFI allowed Sprankles to keep two family-owned stores open in rural communities. The Vandergrift store serves a community of 5,000 with average annual incomes of $26,935; the Apollo store serves a population of 2,000 with average annual incomes of $22,989. Without TRF financing, the stores would have closed, leaving their respective communities with both a lack of fresh food and a historic institution. Together, these stores provide over 50 jobs for local residents.

Sprankles is a small chain of grocery stores, owned by Randy and Brenda Sprankle. The stores serve rural communities in Armstrong, Westmoreland and Cambria Counties in Western Pennsylvania. With financing from the Pennsylvania Fresh Food Financing Initiative, the Sprankles were able to add two new stores to the existing three in their chain: an 8,500-sq.ft. store in Vandergrift and a 10,000-sq.ft store in Apollo. The Vandergrift store is the only grocery store in town; the Apollo store has been a community grocery store for over 40 years.

The Sprankles had become business associates and personal friends of the Olivers, a husband and wife team who owned and operated two supermarkets near two of the Sprankles' stores. Randy Sprankle coordinated all of the ads for the Olivers' stores along with his own. In 2007, the Olivers decided to retire and offered their two stores to the Sprankles. The concern, however, was that a Wal-Mart was going to open in close proximity to these stores.

The Sprankles hesitated on the offer, as they had already felt the impact of a Wal-Mart on another one of their stores in Portage Township. Their sales had slid 3.6% the year the megastore had opened. Yet the Sprankles wanted to prevent the Olivers' family-owned business from going under. As the only grocery in town, the Vandergrift store was an important community hub. Similarly, the Apollo store had served the area for generations.

As much as the Sprankles wanted to help, they simply did not have the money to purchase the Olivers' stores. Even by mortgaging their home, which the couple considered, they would not have been able to make payments. Fortunately, the Sprankles' suppliers sent out an email informing them about the PA FFFI program. The Sprankles qualified for a $1.2 million FFFI loan and a $248,000 grant to purchase the Olivers' two stores. Commenting on how FFFI prevented a family-owned enterprise from being shuttered, Randy Sprankle noted that the investment "ensured that the residents of Vandergrift and Apollo would continue having access to the local grocery stores they had been shopping at for decades."

The benefits of small family-owned grocery stores range from the tangible, like jobs, to the more intangible, such as community pride and spirit. In addition to the 25 jobs each of the Sprankle stores provide, both the Vandergrift and Apollo stores have been community institutions for generations. They provide a sense of connection to the small towns' storied histories.

Though home to the largest sheet steel mill in the world during the early 20th century, Vandergrift today is a small town with just over 5,000 people. Vandergrift's rural location 40 miles east of Pittsburgh and median household income of $26,935 (according to the 2000 Census) make it difficult for small businesses to thrive. The Olivers' store was the only grocery in town. If the Sprankles had not purchased the store from the Olivers, the community would have lost their only access to fresh food as well as a central location for neighbors to gather.

Apollo, located 25 miles northeast of Pittsburgh in a former coal-mining region, faces similar challenges as a rural community. The Sprankles' purchase of the Olivers' store here ensured that Apollo's population – under 2,000 people and with a median household income of $22,989 in 2000 – maintained access to fresh, affordable food via the same community institution that had served them for generations.

The Sprankles have been in the grocery business for over 30 years. Their three grown children, Ryan, Laura and Douglas, plus daughter-in-law Brandi, help run the stores. Says Brenda Sprankle, "We know our customers personally. Our customers are not just consumers, but are our friends and neighbors." This commitment to preventing the Olivers' stores in Vandergrift and Apollo has meant that these communities are retaining fresh food access and at least 50 jobs.

FFFI has been critical to helping keep family-owned stores like the Sprankles' open. As big national chains continue to expand in our communities, it becomes harder for small business owners to compete. But the success of the Vandergrift and Apollo stores proves these owners can not only thrive but bring tremendous value to their communities. The Sprankles' stores assure Vandergrift and Apollo residents that they will continue to have easy access to healthy foods at affordable prices without having to travel long distances. The stores also preserve economic strength and a sense of local pride in these two towns. "We are very much a part of these close-knit communities," says Brenda Sprankle. "Our stores support many local community activities, including sponsoring school sports teams and scouts. When employees live in the same community that they serve, their connection with that community is that much stronger. Our stores are part of the fabric of our communities."

WEAVERS WAY

By The Reinvestment Fund

WEAVERS WAY
Philadelphia, PA

SECTORS: Neighborhood Food Co-op

GEOGRAPHY: Urban; Low/Moderate Income Census Tract -- West Oak Lane Only

WEBSITE: http://weaversway.coop/

OWNERSHIP TYPE: Member Owned Food Co-op

PROJECT DESCRIPTION: Expansion of Co-Op Store to Two Additional Locations

YEAR STORE OPENED: 2007

SQUARE FOOTAGE: 700 Sq. Ft. (West Oak Lane); 6,500 Sq. Ft. (Chestnut Hill)

NUMBER OF STAFF: 100 employees; 4500 members

TOTAL REVENUES: $14 million in FY11

SOURCES OF CAPITAL: $126,715 FFFI grant (West Oak Lane); $250,000 FFFI recoverable predevelopment grant, $500,000 PIDC loan, $1.5 million TRF loan, $2.8 million Valley Green Bank and CMS loan, member loans, a RACP grant, local grants, Weavers Way equity (Chestnut Hill)

OTHER FINANCIAL SERVICES NEEDED: N/A

IMPACT/OUTCOMES: TRF financing helped Weavers Way Co-Op expand to 3 locations, 100 employees and 4,500 members. TRF's loan to Weavers Way West Oak Lane began the co-op's expansion; after this second location, Weavers Way was able to secure financing for a third location. The new store at West Oak Lane offers fresh food in a small location and represents an innovative urban design approach. The Chestnut Hill store offers an expanded bulk selection and a variety of prepared, organic and locally-sourced produce. As of June 2010, sales at this location jumped 50%. Total sales of all 3 stores are expected to reach $14 million in 2011.

Founded in 1972, Weavers Way is one of the oldest, continuously operated food co-operatives in Philadelphia. The co-op's approach is to operate a grocery-based consumer organization, owned and governed by members, to build community both within its membership and in the Northwest Philadelphia area.

Weavers Way started out as a neighborhood buying group in Philadelphia's Mount Airy neighborhood. The co-op sourced produce from its own neighborhood farm, bread from local bakers, coffee from local roasters, and animal products from other local farmers. Weavers Way soon gained over 3,000 members and became one of the area's largest food co-ops. By 2007, annual sales reached $6 million.

Looking to expand past its original location, Weavers Way approached TRF about financing a second location in Philadelphia's diverse Ogontz neighborhood. With $126,715 in support from the Pennsylvania Fresh Food Financing Initiative, Weavers Way opened a 700-square-foot store. Weavers Way "West Oak Lane" began offering a variety of fresh food options that had previously not been available in the area.

In 2009, Weaver's Way approached TRF again to discuss opening a third co-op in Philadelphia's historic Chestnut Hill neighborhood. The Valley Green Bank and CMS assisted Weavers Way with a $2.8 million loan for acquisition of a former market from CMS. Funding from the city's Transit-Oriented Gap Financing program allowed TRF to provide Weavers Way with a low-interest loan to convert this market into a new 6,500-square-foot space. Centrally located on Germantown Avenue, Weavers Way Chestnut Hill features rental units above the ground floor retail.

These successful expansions have helped Weavers Way grow to over 100 employees and 4,500 members. Each location also serves as an alternative model for providing fresh food in urban locations. The original Mount Airy location boasts a neighborhood farm, while the West Oak Lane location is an example of a cornerstore successfully offering healthy food in a small location. The newest store in Chestnut Hill offers an expanded bulk section, along with a vast selection of prepared foods, organic options and locally-sourced produce. In addition, Weavers Way Chestnut Hill boasts a more shopper-friendly layout and design, plus energy-efficient deli counters, freezers and cooling systems. As of June 2010, the Chestnut Hill location saw sales jump 50% greater than expected.

Food cooperatives are often recognized as an innovative way to support local economies and farmers while providing fresh food options to participating communities. But developing food retail sites of any kind in nontraditional urban locations can pose unique design challenges. In collaboration with The Food Trust, TRF awarded a $45,000 design/predevelopment grant to the Community Design Collaborative (CDC) to develop fresh food retail options for three sites – including the West Oak Lane location of Weavers Way.

Weavers Way West Oak Lane presented CDC with the challenge of retrofitting a corner grocery to serve as a co-op. Design practitioners and community development experts worked directly with the store operators to transform the space into the 700 square-foot store that it is today. The initiative modeled to both developers and store operators how best to incorporate new retail options for fresh food into the urban tapestry.

The management team at Weavers Way actively participates in the co-op. General Manager Glenn Bergman is himself a co-op member, which informs his decision-making in a unique way. The Board of Directors also contributes professional expertise. Board member David Kraut, also a co-op member, has used his experience as a lawyer on behalf of Weavers Way to manage different creditors.

Weavers Way not only depends on local members and looks to its own board for guidance; the co-op draws support from the surrounding community as well. Valley Green Bank, in Mt. Airy near both locations, serves as the co-op's primary bank. As noted, VGB was instrumental in financing the acquisition of the Weavers Way Chestnut Hill location.

Total sales for all three stores are expected to reach $14 million this year, due especially to products from area farms. "The local products are flying of the shelves," says Glenn Bergman, the co-op's general manager. He adds this is due “to TRF’s support and belief in this little engine that wants to do good.” Each store has become a celebrated part of its neighborhood, providing both a source of fresh affordable foods and an opportunity for the community to engage in the food production process.

Appendix I

Industry Terminology

Category Management – A retailer organizes the products they carry into distinct groups or groups of related products (i.e. detergents, health and beauty aids, organics, etc.). Each group is recognized as a product category and is run like a mini business. A retailer will monitor a category's sales, gross margins, and whether or not that category is adding to the bottom line or not. Category management is the management of all of these mini-businesses. For example, a grocery retailer may choose to make produce or bananas a loss-leader category [price the bananas at or below wholesale cost] in order to incentivize customers to shop in their store over a competitor who sells similar items.

Central Billing – wholesaler contracts with other produce wholesalers, dairies and meat producers to bill their mutual supermarket customers under one system in instances where products are not available from the warehouse.

Coding – system of identifying each product's department to track gross margin and inventory.

Consumer Sentiment Index - a monthly report published by the University of Michigan. It measures a consumer's outlook on the overall economy and one's own financial position. If a consumer views the economy as favorable, there is a higher probability that more goods and services will be consumed. Conversely, a lower outlook on the economy will cause more consumers to save.

Coupons – "cents off" advertisements available to consumers through the print medium. The retailer reduces the retail price of the product by the amount of the coupon discount. The retailer is reimbursed by the manufacturer when the coupon is returned.

Customer Loyalty Card – A customer loyalty card is a paper or plastic card which identifies a card holder as a member of a retailer's customer loyalty program. A loyalty program is one of the many marketing tools that a retailer may utilize. A retailer may use information gathered from scanning loyalty cards into the POS system to directly target or market to consumers to incentivize them to purchase an item more frequently, in higher quantity, or a related item. For example, a customer loyalty card holder may purchase a package of diapers and the retailer may provide a coupon for baby wipes on the back of the customer's receipt. A loyalty program is also a merchandising or category management tool for retailers that assists them in understanding their consumers' preferences; this information can be used to manage categories more effectively and increase profitability.

Dark Store – A retail commercial space that has been vacant for an extended period of time. These stores were once fully operational and thriving.

Grocery Industry Store Formats – includes Traditional Supermarkets, Limited Assortment Supermarkets, Superettes, Supercenters, Natural / Gourmet Stores, and Convenience Stores:

- **Traditional supermarkets**: Traditional supermarkets, also called conventional supermarkets, are self-service retail stores that sell dry groceries, canned goods, nonfood products and perishables having annual sales of $2 million or more. These stores typically carry between 15,000 and 60,000 stock keeping units (SKUs) and tend to have multiple service departments including but not limited to bakery, butcher, deli, fishery, floral, pharmacy, photo, etc. Traditional supermarkets vary significantly in size but typically range between 20,000 square feet (SF) and 65,000 SF+;
- **Limited assortment supermarkets:** Limited assortment supermarkets, sometimes referred to as discount supermarkets or price impact supermarkets, are self-service retail stores that carry a limited selection of items in a reduced number of categories and typically have few, if any, service departments. Of the 4,000 SKUs or less offered, a higher percentage are private label relative to traditional supermarkets, where private label penetration typically represents less than 30% of sales. Store size varies; however, the stores are typically between 13,000 SF and 25,000 SF;
- **Superettes:** Smaller stores that sell mostly packaged and perishable food items with a basic, narrow selection of SKUs and having annual sales of less than $2 million. These stores tend to have few service departments and are sometimes called “mom & pop” stores or corner stores. These stores tend to carry limited private label products;
- **Supercenters:** Large stores, average over 170,000 SF, which offer a combination store plus discount stores services in a single location. These stores devote as much as 40% of their space to grocery items;
- **Natural / Gourmet Store:** A specialty retail store focused on healthy living and/or gourmet prepared foods. These stores tend to have a limited selection of general merchandise. Store size varies significantly; and
- **Convenience stores:** Small outlets that carry primarily dry groceries and have a limited selection of perishables, prepared foods and general non-food merchandise. They usually carry about 800 to 3,000 items.

Lottery Collections – Stores in states in which a lottery operates can make a sizable income from ticket sales. Collections represent the sales that are held by the grocer but payable to the state commissioner on a weekly basis.

Market Study - A research tool used to analyze attributes of a given market for a particular product need.

Point of Sale System (POS) – A point of sale system is a retail checkout system. It is often used to describe the place in a store where the customer pays for their goods, although the POS actually refers to the hardware (cash register, scanner) and software that enables the transaction to occur.

Sales per Transaction – a key measurement of revenue generation. If the sales per transaction decrease, the retailer needs to increase either the size of each sale or the store's traffic.

Scanners – equipment used at the cashier to read prices automatically.

Slotting Allowances – discounts provided by the manufacturer through the wholesaler as an inducement to the grocer to place products favorably on shelves.

Shrinkage – inventory reductions caused mostly by theft or spoiled goods. For example, if a shopper drops a jar of mayonnaise, the grocer does not charge him or her for the loss; rather, the loss is expensed.

SKU – SKU stands for stock keeping unit, a unique identifier for each product a business offers. A traditional supermarket carries between 15,000 and 60,000 SKUs or different products.

Target market - a subgroup of the overall market usually segmented by geography, demography and/or lifestyle preferences.

Trade area – the vicinity from which a retailer gets a majority of its consumer base.

Wholesaler - a distributor of goods in large quantities sold mainly to retailers who resell to individual users.

Sources: (1), (3)

Appendix II

Loan Applicant Required Document Checklist (Sample)
DUE DILIGENCE CHECKLIST/REQUIRED EXHIBITS

Please note that this is an initial list and other information may be requested.

ITEM	Attached	Not Available	Not Applicable
APPLICANT INFORMATION			
History of Business Provide a brief history of your company and a paragraph describing the expected benefits it will receive from the loan.			
Management Qualifications Provide a brief description similar to a resume of the education, technical and business background for all the people listed under Management. You must describe the management qualifications of the primary store manager (sometimes called general manager).			
FINANCIAL INFORMATION			
Personal Financial Statement Furnish a signed current statement for each stockholder (with 20% or greater ownership), partner, officer, and owner that is current (within past 90 days). We prefer you to use the *Personal Financial Statement* form on our website.			
Personal Tax Returns Provide complete federal tax returns for each individual stockholder (with 20% or greater ownership), partner, officer, and owner, for the last three years.			
Business Financial Statements and Tax Returns Submit income statements, balance sheets, cash flow statements and federal tax returns for the last three years for the business and all affiliates.			
Interim Business Financial Statements Submit statements that are current within ninety (90) days of application filing date.			
Aging of Receivables and Payables Submit current schedule within thirty (30) days of application filing date.			
Suppliers Provide a list of major suppliers including name, address, contact person, total credit line, and phone and fax numbers.			

ITEM	Attached	Not Available	Not Available
PROJECT INFORMATION			
Description of Project including a brief narrative and project location.			
Financial Projections Submit for a minimum of three years based on the proposed project and expectations. Please include an explanation of all assumptions. Also, include a market study if completed (internal and/or external).			
Development Budget (sources and uses) For all sources, please state whether the source is committed or requested. If committed, please provide a copy of commitment. For uses, please provide quotes or contractor estimates to support budget estimates, if available.			
Development Team Members Include contact information, qualifications, and resume for all members: Developer/Sponsor, Architect (submit AIA form), General Contractor (submit AIA form), development consultants, etc.			
Plans, Specifications If the proposed project is a renovation, redevelopment, new construction, or expansion, provide copies of preliminary construction plans and specifications prepared by a qualified, independent third party (general contractor or architect).			
Equipment, Machinery If the proposed project involves purchasing equipment or machinery, you must include a list of equipment and cost of the equipment as quoted by the seller. Also, include the sellers' name and address.			
Real Estate Acquisition or Lease Submit Agreement of Sale for real estate and business acquisitions or a copy of the new or existing lease for all other transactions.			

Appendix III

Sample Underwriting Rating Matrix

Supermarket/ Grocery Stores (Owner Operators)	**Above Average**	**Satisfactory**	**Below Average**	**Watch**	**Substandard**	**Doubtful**
Borrower Financial Condition & Systems	• Strong financial condition • Good financial systems/reports • Good borrower trade report	• Satisfactory financial condition • Adequate controls/reports • Adequate borrower trade report	• Start up with adequate financial systems • History or marginal or inconsistent financial results and/or inadequate controls	• Poor financial trends • Poor or failed controls • Start-up with marginal systems • Poor business credit history	• Going concern issues • Control failure • Tax issues • Liens filed • Payment default	• Pending bankruptcy • Payment default
Owner Management	• Strong industry reputation • Excellent reference from wholesaler • Excellent personal credit • 8+ years of owner experience • 3+ years of strong repayment • track record with supplier	• Satisfactory industry reputation • Satisfactory wholesaler reference • Good personal credit • 8 years experience (can include manager experience) • 3 years satisfactory repayment history with supplier	• Either no trade reference(start up) or below satisfactory reference • Mixed personal credit history • Less than 8 years of management experience • Little or no repayment history with supplier	• Owner personal credit problems • Departure of key staff • Management inexperience and/or poor judgment harming business	• Owner not cooperating • Owner overwhelmed by credit/ other problems	• Unable to locate • Owner • Pending owner • bankruptcy • Owner signals • business • closure
	• Personal guaranty of	• Personal guaranty of	• Personal guaranty of	• LTVR >	• Lack of or loss of	• Legal proceeding

Supermarket / Grocery Stores (Owner Operators)	Above Average	Satisfactory	Below Average	Watch	Substandard	Doubtful
COLLATERAL Conditions	owner(s) • First lien on all business assets • Intercreditor agreement with supplier • LTVR <75% on real estate transactions • First mortgage position on real estate • Assignment of life insurance • First security interest in lease assignment	owner(s) • Shared first lien on business assets • Intercreditor agreement with supplier • LTVR 75-85% on real estate transactions • First or second mortgage position on real estate • Assignment of life insurance • First security interest on lease assignment	owner(s) • Subordinated lien on business assets • Intercreditor agreement with supplier • LTVR > 85% on real estate transactions • Second or third mortgage position on real estate • Assignment of life insurance • Shared first security interest in lease assignment	100% • Junior lien with senior lien delinquent • Weakening of guarantors • Lease payment delinquencies	collateral • Tax liens & creditors threatening collateral values	s initiated to liquidat collateral

Supermarket / Grocery Stores (Owner Operators)	Above Average	Satisfactory	Below Average	Watch	Substandard	Doubtful
REPAYMENT	• Gross profit margin > 25% • Primary obligor DSC > 1.50x based on actual sales, and > 1.10x based on tax returns • If multiple obligors, DSC > 1.75x based on actual sales and > 1.20x based on tax returns	• Gross profit margin = 25% • Primary obligor DSC = 1.50x based on actual sales, and = 1.10x based on tax returns • If multiple obligors, DSC = 1.75x based on actual sales and = 1.20x based on tax returns	• Gross profit margin 20-25% • Primary obligor DSC = 1.25x based on actual sales, and 1.00 based on tax returns • No additional business obligors	• DSC negative in the short term	• DCS negative indefinitely	
TERM / BALLOON	• Loan is fully amortizing • Borrower has refinancing commitment for balloon	• Loan has a balloon, but borrower has a track record of obtaining balloon refinancings	• Loan structured with a balloon with no history of balloon repayment	• Scheduled balloon payment postponed • Principal payment forbearance		
Equity / Net Worth Requirements	• Cash equity > 10% for non-real estate transactions • Cash >20% for real estate transactions	• Cash equity = 10% for non-real estate transactions • Cash = 20% for real estate transactions	• Cash equity < 10% for non-real estate transactions • Cash < 20% for real estate transactions	• Negative net worth		

Appendix IV

Borrower Forms

- Personal Financial Statement Form for Borrower
- Credit Authorization Form (for Background, Credit Check)
- Personal Financial Statement Lender Analysis Sample Format
- Personal Cash Flow Lender Analysis Sample Format

U.S. SMALL BUSINESS ADMINISTRATION

PERSONAL FINANCIAL STATEMENT

As of ____________, 19____

Complete this form for: (1) each proprietor, or (2) each limited partner who owns 20% or more interest and each general partner, or (3) each stockholder owning 20% or more of voting stock, or (4) any person or entity providing a guaranty on the loan.

Name	Business Phone
Residence Address	Residence Phone
City, State, & Zip Code	
Business Name of Applicant/Borrower	

ASSETS	(Omit Cents)	LIABILITIES	(Omit Cents)
Cash on hands & in Banks	$	Accounts Payable	$
Savings Accounts	$	Notes Payable to Banks and Others (Describe in Section 2)	$
IRA or Other Retirement Account	$	Installment Account (Auto)	$
Accounts & Notes Receivable	$	Mo. Payments $	
Life Insurance-Cash Surrender Value Only (Complete Section 8)	$	Installment Account (Other)	$
Stocks and Bonds (Describe in Section 3)	$	Mo. Payments $	
Real Estate (Describe in Section 4)	$	Loan on Life Insurance	$
Automobile-Present Value	$	Mortgages on Real Estate (Describe in Section 4)	$
Other Personal Property (Describe in Section 5)	$	Unpaid Taxes (Describe in Section 6)	$
Other Assets (Describe in Section 5)	$	Other Liabilities (Describe in Section 7)	$
		Total Liabilities	$
		Net Worth	$
Total	$	Total	$

Section 1. Source of Income		Contingent Liabilities	
Salary	$	As Endorser or Co-Maker	$
Net Investment Income	$	Legal Claims & Judgments	$
Real Estate Income	$	Provision for Federal Income Tax	$
Other Income (Describe below)*	$	Other Special Debt	$

Description of Other Income in Section 1.

*Alimony or child support payments need not be disclosed in "Other Income" unless it is desired to have such payments counted toward total income.

(Use attachments if necessary. Each attachment must be identified as a part of this statement and signed.)

Name and Address of Noteholder(s)	Original Balance	Current Balance	Payment Amount	Frequency (monthly,etc.)	How Secured or Endorsed Type of Collateral

SBA Form 413 (2-04) Use 3-87 Edition until stock is exhausted. Ref: SOP 50-10 and 50-30

(Turn Page)

This form was electronically produced by Elite Federal Forms, Inc.

CDFI FUND
CAPACITY BUILDING INITIATIVE

Section 3.

Number of Shares	Name of Securities	Cost	Market Value Quotation/Exchange	Date of Quotation/Exchange	Total Value

Section 4. (List each parcel separately. Use attachment if necessary. Each attachment must be identified as a part of this statement and signed.)

	Property A	Property B	Property C
Type of Property			
Address			
Date Purchased			
Original Cost			
Present Market Value			
Name & Address of Mortgage Holder			
Mortgage Account Number			
Mortgage Balance			
Amount of Payment per Month/Year			
Status of Mortgage			

Section 5. (Describe, and if any is pledged as security, state name and address of lien holder, amount of lien, terms of payment and if delinquent, describe delinquency)

Section 6. Unpaid Taxes. (Describe in detail, as to type, to whom payable, when due, amount, and to what property, if any, a tax lien attaches.)

Section 7. Other Liabilities. (Describe in detail.)

Section 8. Life Insurance Held. (Give face amount and cash surrender value of policies - name of insurance company and beneficiaries)

I authorize SBA/Lender to make inquiries as necessary to verify the accuracy of the statements made and to determine my creditworthiness. I certify the above and the statements contained in the attachments are true and accurate as of the stated date(s). These statements are made for the purpose of either obtaining a loan or guaranteeing a loan. I understand FALSE statements may result in forfeiture of benefits and possible prosecution by the U.S. Attorney General (Reference 18 U.S.C. 1001).

Signature: Date: Social Security Number:

Signature: Date: Social Security Number:

PLEASE NOTE: The estimated average burden hours for the completion of this form is 1.5 hours per response. If you have questions or comments concerning this estimate or any other aspect of this information, please contact Chief, Administrative Branch, U.S. Small Business Administration, Washington, D.C. 20416, and Clearance Officer, Paper Reduction Project (3245-0188), Office of Management and Budget, Washington, D.C. 20503.

Sample Credit Authorization Release Form

Authorization to Release Information

I, __________________, am applying for a loan from The Reinvestment Fund ("TRF") and for the purpose of applying for this loan, I hereby authorize TRF to make whatever credit inquiry it deems necessary in connection with my loan application, and I authorize and instruct any person or consumer reporting agency to furnish information in response to such inquiries. I also authorize TRF to reproduce this authorization in order to facilitate multiple credit and pay-off inquiries. I understand that any information received is for the sole use of TRF.

____________________ ____________________________________ ______________

Signature Address Social Security #

____

Date

Sample Personal Financial Statement Analysis

SAMPLE PERSONAL FINANCIAL STATEMENT ANALYSIS (SPREADSHEET)

PFS John and Jane Doe, Jake Doe

Date **As of 1/1/2011**

		%	All partners Assets	All partners Liabilities	John and Jane Doe Assets	John and Jane Doe Liabilities	Jake Doe Assets	Jake Doe Liabilities	Schedules
	As Self Reported to The Bank								
ASSETS									
Current Assets		% Assets							
	Cash	0.2%	$ 100,000		$ 100,000		$ -		
	Readily Marketable Securities & Mutual Funds	0.5%	$ 300,000		$ 300,000		$ -		
	Life Insurance - Cash Surrender Value	0.1%	$ 70,000		$ 50,000		$ 20,000		
	Total Current Assets	0.9%	$ **470,000**		$ **450,000**		$ **20,000**		
Real Estate (net) - see attached Schedule									
Note 1	Personal Real Estate - Residences	3.6%	$ 2,000,000		$ 2,000,000		$ -		
Note 1	Business Real Estate - Residential	3.5%	$ 1,900,000		$ 1,900,000		$ -		Schedule 1
Note 1	Business Real Estate - Varies	45.5%	$ 25,000,000		$ 15,000,000		$ 10,000,000		Schedule 1
	Business Real Estate - Other	0.0%	$ -						Schedule 1
	Total Real Estate	52.6%	$ **28,900,000**		$ **18,900,000**		$ **10,000,000**		
Other Non-Real Estate Assets									
Note 2	Personal Property (Jewelry, Furniture, Autos, etc.)	0.4%	$ 200,000		$ 200,000		$ 25,000		
	Retirement Accounts (IRA, Keogh, 401K, etc.)	0.5%	$ 300,000		$ 300,000		$ 15,000		
	Non-Marketable Securities	0.1%	$ 45,000		$ 45,000		$ -		
	Note Receivable	0.0%	$ 10,000		$ 10,000		$ -		
	Partnership Interests	45.5%	$ 25,000,000		$ 15,000,000		$ 10,000,000		Schedule 2
	Total Other Assets	46.6%	$ **25,595,000**		$ **15,555,000**		$ **10,040,000**		
TOTAL ASSETS		100.0%	$ **54,965,000**		$ **34,905,000**		$ **20,060,000**		
LIABILITIES									
	Personal Real Estate	2.7%		$ 1,500,000		$ 1,500,000		$ 500,000	
	Business Real Estate - Residential	0.5%		$ 250,000		$ 250,000		$ -	Schedule 1
	Business Real Estate - Varies	36.4%		$ 20,000,000		$ 11,000,000		$ 9,000,000	Schedule 1
	Business Real Estate - Other	0.0%		$ -		$ -		$ -	Schedule 1
	Total Mortgages	40.5%		$ **22,250,000**		$ **12,750,000**		$ **9,500,000**	
Other Liabilities									
	Partnership Interest - Balance Due on Notes	32.7%		$ 18,000,000		$ 12,000,000		$ 6,000,000	Schedule 2
	Note Payable to BANK G	0.5%		$ 255,821		$ 255,821		$ -	
	Total Other Liabilities	33.2%		$ **18,255,821**		$ **12,255,821**		$ **6,000,000**	
TOTAL LIABILITIES		73.7%		$ **40,505,821**		$ **25,005,821**		$ **15,500,000**	
NET WORTH			$ **14,459,179**		$ **9,899,179**		$ **4,560,000**		

Note 1 The Bank Discounted by 20%

Note 2 The Bank Discounted by 40%

CONTINGENT LIABILITIES (Known by The Bank) $ **29,500,000**

Schedule 1 - Business Real Estate - Varies

John and Jane Doe

Address	Description	Ownership	Investment Date	Investment Cost	Total Market Value	Total Unpaid Mortgage Balance	%Ownership Market Value	% Ownership Unpaid Mortgage Balance
100 1st Street, Reading, PA	Shopping Center	50%	Sep-02		$ 4,500,000	$ 8,500,000	$ 2,250,000	$ 4,250,000
100 1st Street, Lancaster, PA	Pad Site	50%	Oct-05		$ 4,400,000	$ -	$ 2,200,000	$ -
100 1st Street, Paterson, NJ	Supermarket	50%	Mar-06		$ 4,000,000	$ 400,000	$ 2,000,000	$ 200,000
100 1st Street, Essington, NJ	Shopping Plaza	50%	Dec-07		$ 7,000,000	$ 5,600,000	$ 3,500,000	$ 2,800,000
100 1st Street, Havertown, MD	Supermarket	50%	Jan-07		$ 4,000,000	$ 6,000,000	$ 2,000,000	$ 3,000,000
100 1st Street, Bucks, PA	Pad Site	50%	Jan-06		$ 9,000,000	$ 2,000,000	$ 4,500,000	$ 1,000,000
1st & 2nd Street, Powell, NJ	Strip Center	50%	May-09		$ 900,000	$ -	$ 450,000	$ -
							$ -	$ -
Total					$ 33,800,000	$ 22,500,000	$ 16,900,000	$ 11,250,000
Net Value					$ 11,300,000		$ 5,650,000	

Jake Doe

Address	Description	Ownership	Investment Date	Investment Cost	Total Market Value	Total Unpaid Mortgage Balance	%Ownership Market Value	% Ownership Unpaid Mortgage Balance
100 1st Street, Round, NJ	Supermarket	100%	Jun-06		$ 6,000,000	$ 5,500,000	$ 6,000,000	$ 5,500,000
100 1st Street, Brick, NJ	Shopping Plaza	100%	Sep-06		$ 2,000,000	$ 1,750,000	$ 2,000,000	$ 1,750,000
100 1st Street, Kansas, MD	Supermarket	100%	2004		$ 2,000,000	$ 1,750,000	$ 2,000,000	$ 1,750,000
100 1st Street, Haver de Grace, MD	Strip Center	100%	Sep-08		$ -	$ -	$ -	$ -
Total					$ 10,000,000	$ 9,000,000	$ 10,000,000	$ 9,000,000
Net Value					$ 1,000,000		$ 1,000,000	

Schedule 2 - Partnership Interests

John and Jane Doe

Company Name	Ownership	Investment Date	Market Value	Balance Due on Partnership Notes
Company 1	100%	1980	$ 8,500,000	$ 8,000,000
Company 2	100%	1984	$ 1,000,000	$ 750,000
Company 3	100%	1999	$ 500,000	$ 250,000
Company 4	100%	2000	$ 1,500,000	$ 1,000,000
Company 5	100%	2005	$ 1,000,000	$ 800,000
Company 6	100%	1995	$ 1,200,000	$ 200,000
Company 7	100%	2008	$ 1,300,000	$ 1,000,000
Total			$ 15,000,000	$ 12,000,000
Net Value			$ 3,000,000	

Jake Doe

Company Name	Ownership	Investment Date	Market Value	Balance Due on Partnership Notes
Company 1	100%	Aug-09	$ 9,000,000	$ 5,500,000
Company 2	100%	Dec-09	$ 1,000,000	$ 500,000
Total			$ 10,000,000	$ 6,000,000
Net Value			$ 4,000,000	

Schedule 3

Contingent Liabilities that The Bank is Aware of:

Personal Guaranty of John and Jane Doe

	Debtor Name	Bank Name	Loan Amount*	Maturity Date	Other Personal Guarantees
1	Company A	Bank A	$ 300,000	August 2014	
2	Company B	Bank B	$ 2,800,000	February 2016	
3					
4					
5					
6					
7					
8					
9					
10					
11					
		Total:	$ 3,100,000		

Personal Guaranty of Jake Doe

	Debtor Name	Bank Name	Loan Amount	Maturity Date	Other Personal Guarantees
1	Company A	Bank A	$ 2,000,000	May 2015	
2	Company B	Bank B	$ 5,000,000	September 2014	
3	Company C	Bank C	$ 7,500,000	December 2018	
4	Company D	Bank D	$ 15,000,000	December 2016	
5					
		Total:	$ 29,500,000		

Sample Format: PERSONAL CASH FLOW ANALYSIS:

			TAX RETURNS		
CASH INFLOWS		**Source**	**2008**	**2009**	**2010**
1	Wages		$ -	$ -	$ -
2	Interest/Dividends	Sched B	$ -	$ -	$ -
3	Cash Flow from Business	Sched C+ Non-Cash Expenses +/- Change in Inventory	$ -	$ -	$ -
4	Rent & Royalty Cash Flow	Schedule E + Depreciation + Mtg. Int	$ -	$ -	$ -
5	Cash Distribution from Partnerships	Sched E; K-1 1065	$ -	$ -	$ -
6	Cash Distribution from "S" Corps	Sched E; 1120S	$ -	$ -	$ -
7	Proceeds-Asset Sales	Sched D- Sales Price	$ -	$ -	$ -
8	Proceeds-Business Property	Form 4797- Gross Sales Price	$ -	$ -	$ -
9	Proceeds-Installment Sales	Form 6252	$ -	$ -	$ -
10	Tax Refunds		$ -	$ -	$ -
11	IRA/Pension/Annuity Distributions		$ -	$ -	$ -
12	Social Security Benefits		$ -	$ -	$ -
13	Other: Unemp Compensation		$ -	$ -	$ -
14	**TOTAL CASH INFLOWS**	Total Lines 1-13	$ -	$ -	$ -

CASH OUTFLOWS			**2008**	**2009**	**2010**
15	Federal Income Taxes	1040-Page 2	$ -	$ -	$ -
16	State and Local Taxes	Sched A	$ -	$ -	$ -
17	FICA (SS + medicare)	W-2 or Chart	$ -	$ -	$ -
18	P&I on Rental Property	Sched E Int + Principal Pymts	$ -	$ -	$ -
19	Cash Outlays on Partnerships	K-1 1065	$ -	$ -	$ -
20	Cash Outlays on "S" Corps	1120S	$ -	$ -	$ -
21	Cash Invest- New Deprec Prop	Form 4562	$ -	$ -	$ -
22	Securities Purchased		$ -	$ -	$ -
23	Investment Interest Expense		$ -	$ -	$ -
24	Child Care/Education Expense		$ -	$ -	$ -
25	Contributions to IRAs/SEPs/Etc.		$ -	$ -	$ -
26	Consumer Debt Service--Latest Year	from PFS	$ -	$ -	$ -
27	Other		$ -	$ -	$ -
28	**TOTAL CASH OUTFLOWS**	Total Lines 15-27	$ -	$ -	$ -
29	Net Cash Flow before Personal Expense	Line 14 less Line 28	$ -	$ -	$ -
PERSONAL EXPENSES					
30	Medical Expenses	Sched A	$ -	$ -	$ -
31	R E Taxes	Sched A	$ -	$ -	$ -
32	Other Taxes	Sched A	$ -	$ -	$ -
33	Home Mortgage Interest & Principal	Sched A/CBR/PFS	$ -	$ -	$ -
34	Personal Living Expenses	$10,000 per adult; $5,000 per child	$ -	$ -	$ -
35	**TOTAL PERSONAL LIVING EXPENSES**	**(Total Lines 30-34)**	$ -	$ -	$ -
36	**CASH FLOW AVAILABLE**	**(Line 29 less Line 35)**	$ -	$ -	$ -

Appendix V

Sample Lender Documents

- Letter of Interest
- Term Sheet
- Commitment Letter

Sample Letter of Interest

March 20, 2008
Ms. Jane Doe
President
The Grocery Marketplace, Inc.
Address: Somewhere, NC 00100

RE: Letter of Interest for Food Access Funding
Financing for The Grocery Marketplace, Inc. Remodel and Expansion in Somewhere Else, NC

Dear Ms. Doe,

The Bank, Inc. ("Lender" or "The Bank") is pleased to provide this letter as evidence of our intent to offer permanent leasehold improvement and equipment financing to The Grocery Marketplace, Inc. for your upcoming extensive remodel and expansion of the Grocery Marketplace in Somewhere Else, NC.

I have reviewed your application, proposed development budget, proforma, sources of funds, and other information about your project. Based on this review and on other assumptions outlined below, The Bank expects to originate a secured, permanent leasehold improvement and equipment loan of $1,100,000 with a term of 7 years in which the loan fully amortizes. The loan will have a fixed rate of interest based on a 250bps spread over the 7-year T-bill with a floor of 5.0%. If this loan were to close today, the interest rate would be 5.0%. We also expect to charge a loan origination fee of 1.0%. In addition, the borrower is responsible for covering its own and lender's legal costs as well as any third party costs incurred during lender's due diligence period (i.e. lien searches, background check, etc.).

Lender anticipates that this financing will be secured by a first priority leasehold mortgage as well as a first lien on the equipment and fixtures financed. In addition, The Bank expects the loan to be corporately guaranteed by The Grocery Marketplace, Inc. and personally guaranteed by you.

The total development budget for the project is estimated to be approximately $1.45 million, inclusive of anticipated financing and closing costs. I have enclosed a copy of the development budget for your review. The balance of the development budget will be funded by owner's and borrower's equity, currently estimated at approximately $350,000.

Of course, the terms and conditions of the financing described in this letter will be subject to the final approval of the Supermarket Loan Committee. Please note that this letter is only for informational purposes. It does not constitute a commitment to provide loan financing. We look forward to working with you on this exciting development.

Sincerely,

Person Persons
Loan Officer
The Bank, Inc.
Enc: Preliminary Development Budget

Sample Term Sheet

December 15, 2009

Mr. John Doe
Director of Real Estate
The Company II, Inc.
Address: Matson, OH 00002

RE: Matson, OH Food Store

Dear Mr. Doe,

Thank you for submitting an application to The Bank, Inc. ("Lender" or "The Bank") for leasehold improvements and equipment financing for the above referenced property. This letter indicates Lender's interest in providing financing in an amount up to $500,000.00 (the "Loan") based on the terms and conditions set forth below.

The terms set forth below are intended for outlining those terms pursuant to which a definitive agreement may be entered into and do not, at this time, constitute a commitment to make a loan. Approval is contingent upon, among other things, completion of underwriting.

Prospective Loan Terms

Borrower:	A newly formed affiliate of the Guarantor expressly created to only operate the Ohio retail grocery business at the collateral location.
Guarantors:	The Company II, Inc.
Loan Type:	Leasehold Improvement and Equipment Financing
Loan Amount:	Up to $500,000.00
Guaranty:	Guaranty is full and unconditional.
Equity Requirement:	Equity in the amount of at least $350,000.00 ("Borrower Equity") is expected to be provided by the Borrower/Guarantor for this project.
Rate:	A fixed rate equal to the 7 year T-bill at time of closing, plus 250bps. Floor of 6.00%
Term:	84 months (7 years)
Commitment Fee(s):	50 bps of the commitment amount payable at closing.
Closing Fees:	Borrower responsible for Lender and Borrower legal fees and any other reasonable Lender related expenses associated with transaction.
Advances:	Loan will advance based on work-in-place as approved by The Bank inspector.
Repayment:	Regular monthly interest and principal payments based on the above rate in an amount necessary to fully amortize the loan over the permanent period.
Collateral:	Title-insured first leasehold mortgage lien against the referenced property; First lien security interest and UCC in all property and equipment of the Borrower.

Pre-Closing Conditions

The items Borrower would be required to submit to Lender prior to closing would include, but not be limited to, the following, all of which must be satisfactory to Lender in every respect:

1. Evidence of zoning variance and building permits.
2. Evidence of committed financing sources or Borrower /Guarantor cash reserves in an amount sufficient to support the proposed $1.5 million development budget.
3. Such other items as The Bank may reasonably require.

Covenants, Representations, etc.
The covenants, representations and warranties Borrower would be required to make to Lender in Lender's loan documents would include, but not be limited to, the following:

1. Borrower Equity in project costs to fund prior to The Bank debt.
2. Standard supermarket covenants and reporting obligations
3. Such other items as The Bank may reasonably require.

While this letter outlines, in part, the terms and conditions under which Lender will consider making the Loan to Borrower, it is being issued solely for informational purposes and for your convenience in planning. Please be aware that Lender is still conducting its underwriting, and therefore this letter does not contain an exhaustive list of those items and other terms and conditions which Lender may require before closing the Loan.

If you desire to continue to pursue financing based upon the foregoing terms and conditions, please sign and return this letter together with a good faith deposit of $1,000 within ten (10) days of the date hereof. If the principal business terms and conditions of our commitment letter are not substantially the same and you do not accept the commitment or if we choose not to issue the commitment for any reason, we will return the good faith deposit less any expenses incurred by The Bank to third parties. If The Bank declines to approve the loan for any reason whatsoever, it shall have no liability except for the return of the good faith deposit under the circumstances set forth above.

If you have any questions or comments regarding the contents of this letter, please do not hesitate to contact me at 100-001-0005.

Sincerely,

By:____
Name: Ms. Person
Title: Loan Officer

ACCEPTED BY:
The Company II, Inc.

THIS ____ DAY OF ________________, 2009:

By:____

Name: Mr. John Doe
Title: Director of Real Estate

Sample Commitment Letter

June 10, 2010

Ms. Jane Doe
Chief Financial Officer
The Company
Address
Address

Re: Construction and Permanent Financing of Food Store in Morehead City, NV

Dear Ms. Doe:

With this letter, The Bank ("**Lender**") extends an offer to provide construction and permanent financing to a to-be-formed affiliate ("**Borrower**") of The Company, Inc., subject to the following terms and conditions. This offer letter supersedes and replaces in entirety Lender's offer letter to Borrower dated March 5, 2010 (the "**First Offer Letter**"). Borrower and Lender agree that the First Offer Letter is void and unenforceable against either party.

1. The Project. "**Project**" refers to Borrower's plan to make leasehold improvements to and purchase equipment for a building to be leased by Borrower for use as a grocery store from The Landlord, LLC (the "**Landlord**"), located in the City of Morehead City, Morehead County, Nevada (this leasehold estate being hereinafter referred to as the "**Premises**"), at an address commonly known as 1400 Morehead Avenue. The terms and conditions governing Borrower's use of the Premises are set forth into an agreement of lease dated December 22, 2009 as the same may be amended from time to time (the "**Lease**"). The Project is being financed, in part, by unsecured Community Development Block Grant financing from the State Agency ("**State Agency**") in the principal amount of $300,000 (the "**STATE AGENCY Loan**"). Other financing for the Project will come as a loan from the State Department of Community and Economic Development ("**CED**") in the principal amount of $650,000 (the "**CED Loan**").

2. The Loan. Lender will provide a construction and permanent loan facility to Borrower of up to $1,000,000 to assist in financing the Project (the "**Loan**"). The terms and conditions for the Loan are set out below.

(a) Term. The Loan will have a construction term of up to seven (7) months (the "**Construction Term**") followed by a seven (7) year permanent term (the "**Permanent Term**").

(b) Interest Rate. The Loan will bear interest at the annual rate of 6.75%, fixed.

(c) Repayment Terms.

(i) During the Construction Term, Borrower must make monthly payments of accrued and unpaid interest only, at the stated rate, on the principal balance outstanding during the preceding calendar month. Without in any way limiting Lender's recourse to Borrower under the Loan, Borrower may draw down up to $30,000 of the proceeds of the Loan (the "**Interest Allowance**") to pay monthly interest due. Borrower agrees, however, that exhaustion of the Interest Allowance will not relieve Borrower of the obligation to make

all payments due to Lender under the Loan. Lender will apply each payment from the Interest Allowance or other source first to pay all other charges then owing under the Loan Documents (defined below), if any, and then to accrued and unpaid interest. During this period Lender will calculate interest on the basis of a 360 day year for the actual number of days elapsed.

(ii) After completion of construction, and upon Borrower's satisfaction of those terms and conditions at 2(f) below, Borrower must repay the then outstanding principal balance, together with any accrued but unpaid interest and all other charges then due under the Loan, in 84 equal consecutive monthly payments of principal and interest at the stated rate, each in the amount of $14,970.76, so as to repay the Loan in full over the same period. Lender will apply each payment first to all other charges then owing under the Loan Documents (defined below), if any, then to accrued and unpaid interest, and lastly to reduce principal. During this period Lender will calculate interest on the basis of a 30 day month and a 360 day year.

(d) Advances. Lender will make advances under the Loan to pay for those items shown on the development budget made a part of this letter as **Exhibit A** or such other development budget as may be revised by Borrower during the course of construction with the consent of Lender, which consent shall not be unreasonably withheld, conditioned or delayed (the " **Preliminary Development Budget**"). Lender will make advances solely for hard and soft costs shown in the Preliminary Development Budget, for work in-place or soft costs demonstrably incurred, as applicable. Lender's obligation to make advances under the Loan will be subject to terms and conditions customarily required by Lender for transactions of this nature, including, but not limited to, evidence that Borrower has first expended in full Borrower's equity line item on the Development Budget (the “**Equity Requirement**”), evidence that Borrower has first expended in full the proceeds of the STATE AGENCY Loan into the Project, approval by Lender's construction inspector of work in-place and payment for no more than 90% of the work in-place completed by the general contractor hired by Borrower to carry out the Project (the “**General Contractor**”) until Borrower's submission of the final request for an advance under the Loan. Lender reserves the right to cause Borrower to require the General Contractor (defined below) to provide Lender with an executed, partial release of lien rights instrument (in favor of Borrower) with each request for an advance. Borrower agrees that Borrower must cause the title insurer of Lender’s leasehold mortgage lien to issue a “bring-down” endorsement with each request for an advance under the Loan.

(e) Collateral. To secure Borrower's obligations under the Loan, Borrower must (i) grant a first priority leasehold mortgage lien (the "**Mortgage**") to Lender on Borrower's leasehold estate in the Premises (which must be consented to in writing by any person or entity holding any lien on the fee simple estate of the Premises), subject to such exceptions to title, if any, which are satisfactory to Lender; (ii) grant a first priority purchase money in any equipment or fixtures or other tangible personal property purchased with the proceeds of the Loan; (iii) grant a security interest to Lender under the Uniform Commercial Code in all of Borrower's personal property; (iv) make an absolute assignment to Lender of all sub-rents and sub-leases related to Borrower’s leasehold estate in the Premises and (v) collaterally assign to Lender all of Borrower’s rights, title and interests in and to the Lease. Borrower shall be prohibited from amending the terms of the Lease without the consent of Lender, which consent shall not be unreasonably withheld, conditioned or delayed. Further, Borrower must cause Guarantor (defined below) to grant a security interest to Lender under the Uniform

Commercial Code in certain operating equipment, sales fixtures and office equipment currently located on the Premises. Borrower agrees that Borrower must cause STATE AGENCY and CED to subordinate the STATE AGENCY Loan and the CED Loan to the Loan in every respect.

(f) Conversion to Permanent Financing. Lender's obligation to convert the Loan to permanent financing is conditioned upon Borrower's satisfaction of the terms and conditions customarily required by Lender for transactions of this nature, including, but not limited to, (i) certification by the Architect that construction has been completed according to plans and specifications and meets the requirements of all municipal and other governmental authorities having jurisdiction over it; (ii) issuance of a certificate of occupancy for the Premises from the appropriate municipal authority; (iii) an endorsement to Lender's title insurance policy, satisfactory to Lender in every respect, bringing the date of the policy down to the date of the conversion of the Loan to permanent financing, and (iv) production by the General Contractor and Architect of a final release of lien rights instrument.

(g) [Intentionally Omitted]

(h) Guarantor. The Company, Inc. ("**Guarantor**") must provide an irrevocable guaranty of Borrower's obligations under the Loan (the “**Guaranty**”). Guarantor agrees that the Guaranty will contain waivers of right to jury trial and choice of venue.

(i) Landlord's Consent & Subordination. Borrower must cause Landlord to execute a landlord's consent and subordination instrument in connection with Lender’s first priority security interest in Borrower's tangible personal property which may be located on the Premises. This instrument must be satisfactory to Lender in form and content and in a form suitable for recording. Borrower will bear the cost of producing and recording this instrument.

(j) Commitment Fee. Borrower must pay a commitment fee to Lender equaling 1% of the Loan ($10,000.00) as follows: 1/2 ($5,000.00) upon accepting this offer (see section entitled "Acceptance; Closing" below), and 1/2 ($5,000.00) which is due and payable in full no later than the date of closing. Borrower agrees that this fee, which is non-refundable, in whole or in part, for any reason, is a liquidated damages amount, and is a fair compensation for Lender's time and effort in underwriting the transaction, negotiating the terms of this offer letter, and for the cost of allocating funds for this transaction and foregoing other financing opportunities.

(k) Automated Clearinghouse Payments. In lieu of Lender’s usual requirement that monthly payments be made through Borrower’s entry into an automated clearinghouse agreement for the term of the Loan, Lender has agreed to accept payments in the amount of that month’s required debt service by electronic funds transfer as of the first business day of each calendar month during the term of the Loan.

3. Cross-Default; Cross-Collateralization. Borrower agrees that Lender reserves the right to require that the Loan will be cross-defaulted and cross-collateralized with any other loan made by Lender or any of its affiliates or related entities to Borrower or to any of Borrower's affiliates or related entities.

4. Late Charges; Default Rate of Interest. Late payments will be subject to a late charge equal to 5% of the amount of the delinquent payment. Borrower agrees that this charge is a reasonable estimation of Lender's damages for the increased costs of administering a late payment, and is not a penalty. Following the

occurrence of an Event of Default under the Loan, Lender may thereafter charge a default rate of interest equal to the stated rate of interest plus 4% (the "**Default Rate**"), or such lower rate if the Default Rate exceeds the maximum rate of interest allowed by law at that time.

5. Waiver of Jury Trial/Choice of Venue. Borrower and Guarantor agree that the Loan Documents (defined below) will contain waivers of right to jury trial and choice of venue.

6. Prepayment. Borrower may not prepay the Loan, in whole or in part, at any time.

7. Conditions Precedent to Closing. In addition to fulfilling the other terms and conditions of this letter, Borrower must provide Lender with the following, satisfactory to Lender in form and content, at least five business days prior to closing:

(a) evidence that Borrower has obtained a binding commitment for the STATE AGENCY Loan at an annual rate of interest not to exceed 0%, upon terms satisfactory to Lender, and will be able to meet all closing requirements associated with it, together with evidence that Borrower can meet the Equity Requirement in readily available funds;

(b) a phase I environmental assessment of the Premises conducted in accordance with the most current ASTM Designation for Standard Practice for Environmental Site Assessments, indicating that the Premises is free of any hazardous materials and not otherwise subject to any environmental claims, or else confirming that budgeted remediation is sufficient in the event that remediation is necessary, or as may be otherwise satisfactory to the Lender. Based upon the results of the Phase I Environmental Assessment, Lender reserves the right to require the Borrower to conduct Phase II Environmental Assessment/Reports;

(c) original or duplicate policies of insurance, or evidence of insurance on an ACORD 27 (in the case of property insurance) or ACORD 25 (in the case of liability insurance) form of certificate, as follows: (i) builder's "all-risk" extended coverage insurance (non-reporting Completed Value with Special Cause of Loss form) in amounts based upon the completed replacement value of the improvements to be constructed, endorsed to provide that occupancy by any person will not void such coverage, and naming Lender, its successors or assigns, as their interests may appear, as BOTH a mortgagee and loss payee under standard endorsement clauses and (ii) comprehensive general public liability insurance for Borrower, covering iNVury and damage to persons and property with a minimum liability limit of $5,000,000, and naming Lender, its successors or assigns as their interest may appear, as an additional insured. All policies or certificates must provide that Lender will receive written notice of cancellation at least 30 days prior to any such cancellation taking effect. Borrower shall provide certificates to Lender evidencing the renewal of existing policies prior to their expiration, thereby evidencing continuous coverage. All insurer(s) must be satisfactory to Lender and have an Alfred M. Best Company, Inc. rating of no less than "A-", and be of a financial size category not less than VII. In all cases, Lender's legend must read as follows:

The Bank, ISOA, ATIMA
100 Water Street
Somewhere, NV 00001
Attn: Credit Administration

(d) [Intentionally Omitted];

(e) evidence of flood insurance coverage, which may be waived upon certification satisfactory to Lender that the Premises are not located in a flood zone;

(f) a commitment to provide an ALTA 2006 lender's policy of title insurance in the amount of the Loan on the fee title to the Premises, from a title insurer satisfactory to Lender, including copies of all documents identified therein as causing an exception to coverage. This commitment must be marked-up at

closing to show removal of all exceptions and exclusions from coverage which are unsatisfactory to Lender; to show an effective date of coverage no earlier than the "date of recording", and to indicate issue of those endorsements to coverage, including a leasehold title endorsement, required by Lender. The commitment must list Lender, its successor or assigns as their interests may arise, as the insured under the proposed policy. If an agent is conducting the closing on behalf of the title insurer, Borrower must also provide Lender with an insured's closing protection letter from the title insurer. Borrower must also cause Landlord to provide Borrower's title insurer with a memorandum of lease (or similar instrument) suitable for recording in the land records of Morehead County, Nevada;

(g) a true and correct copy of the Lease and any all amendments to it. Borrower acknowledges that the Lease must be satisfactory to Lender in every respect, at Lender's sole discretion;

(h) true and correct copies of all building permits issued in connection with the Project, together with any other evidence required by Lender that the Project's anticipated use conforms to all applicable zoning or other governmental requirements (subject to review and approval of Lender's consulting construction inspector);

(i) a true and correct copy of the final specifications to be used in constructing the Project (subject to review and approval of Lender's consulting construction inspector);

(j) a true and correct copy of the final, stamped plans for the Project, prepared by Architect, together with evidence that they have been approved by any and all municipal authorities having jurisdiction over the Project's design and proposed use (subject to review and approval of Lender's consulting construction inspector);

(k) a final development budget for the project (showing sources and uses of all funds), including an itemized schedule of values, certified by Borrower as true, correct, final and complete (subject to review and approval of Lender's consulting construction inspector);

(l) true and correct copies of the executed contracts between Borrower and (i) Architect and (ii) General Contractor, if any;

(m) [Intentionally Omitted]

(n) true and correct copies of (i) General Contractor's qualification statement on American Institute of Architect's form A305 and (ii) Architect's qualification statement on American Institute of Architect's form B305;

(o) an ACORD 25 form of certificate, evidencing comprehensive general public liability insurance for the General Contractor, covering iNVury and damage to persons and property on a per-occurrence basis with a limit of no less than $1,000,000. The certificate must name Lender and Lender's consulting inspector, if applicable, as certificate holder(s), and specify that certificate holders will receive notice of cancellation to the policy at least 30 days prior to such cancellation taking effect. This insurer(s) must be satisfactory to Lender and have an Alfred M. Best Company, Inc. rating of no less than "A-", and be of a financial size category not less than VII;

(p) certification by the appropriate persons or entities comprising Borrower that Borrower has, among other things, authorized incurring the indebtedness of the Loan and execution and delivery of all documentation necessary to carry out the transactions contemplated under this letter, together with an incumbency certification showing the correct name and specimen signature of the officer of Borrower authorized to execute and deliver the Loan Documents;

(q) true and correct copies of Borrower's constituent documents, federal tax identification number (on IRS form W-9) and good standing;

(r) certification by Guarantor's corporate secretary that its board of directors has, among other things, authorized Guarantor to guarantee the Loan and the execution and delivery of all documentation by the appropriate officer of Guarantor which is necessary to create, effect, secure and perfect the Guaranty, together with an incumbency certification as to the names and signatures of officers authorized to execute the Guaranty;

(s) evidence that Borrower is current on all business and operating taxes; and

(t) such other documents, reports, financial records and due diligence materials that Lender may reasonably require.

8. Lender's Loan Documents. (a) At closing, Borrower and Guarantor must execute and deliver originals of Lender's loan documents, including, but not limited to, all appropriate certificates of resolution (as applicable); a note; a leasehold mortgage, security agreement and fixture filing; a loan agreement; an absolute assignment of rents and leases; security agreements; UCC-1 financing statements; a collateral assignment of all of Borrower's rights, title and interests in and to the Lease; the Guaranty and such other writings reasonably required by Lender to create, consummate, secure and perfect the Loan and Lender's interest in any collateral securing the Loan (collectively, the "**Loan Documents**").

(b) Lender's counsel will be Mr. Counsel, Esquire, A Law Firm, Somewhere, NV 00001, 100-100-0001 ("**Lender's Counsel**"), whom Borrower agrees will be responsible for preparing and reviewing all documentation necessary for closing the Loan. Documentation for which Borrower is responsible must be delivered to Lender's counsel for his review at least five (5) business days prior to closing.

(c) All fees charged by Lender's Counsel in connection with this transaction must be paid by Borrower at closing. A good faith estimate of the fees and expenses of Lender's Counsel for this transaction is $2,500. This estimate assumes one (1) round of negotiated changes to the Loan Documents and closing on a timely basis. Further requested revisions are subject to additional charges by Lender's Counsel. Lender reserves the right to require payment in advance of any such additional costs of Lender's Counsel prior to commissioning Lender's Counsel to perform any further revisions.

(d) Borrower must pay all expenses incurred by Lender in connection with the Loan whether the Loan closes or not. Borrower's obligation to pay such expenses will survive the expiration or termination of this offer letter.

9. Representations & Warranties; Covenants and Other Matters. As part of the Loan Documents, Borrower and Guarantor must make such representations, warranties, covenants, indemnities and waivers (including environmental warranties, covenants, indemnities and waivers), and the Loan Documents will contain such conditions to closing, events of default and remedies as are customary for Lender's transactions of this nature, as well as ones which are specific to the unique characteristics of the Project, as determined by Lender at its sole discretion. Borrower and Guarantor acknowledges and agrees that this offer letter does not contain

every condition, covenant, representation and warranty, waiver, burden or provision which Lender may require of Borrower in the Loan Documents, and Borrower and Guarantor agree that the imposition of such additional conditions, covenants, representations and warranties, waivers, burdens or provisions will not constitute a breach of this commitment by Lender.

10. Representation Regarding Prevailing Wage. Borrower must represent warrant to Lender in the Loan Documents that Borrower's contract with the General Contractor required the General Contractor to pay prevailing wages to all workers on the Project in accordance with the requirements of the United States Department of Labor under Davis-Bacon and related acts.

11. Additional Covenants. Borrower will maintain Debt Service Coverage Ratios as follows: (a) no less than 1.0:1 for the first year of the Loan and (b) no less than 1.20:1 for each of the years two through seven of the Loan. "**Debt Service Coverage Ratio**" means the ratio between Borrower's net operating revenues and the annual debt service required under the Loan, as determined by Lender at Lender's sole discretion.

12. [Intentionally Omitted]

13. Acceptance; Closing. To accept this offer, Borrower and Guarantor must sign this letter where indicated below and return it to Lender by 5:00 pm on June 20, 2010, together with the portion of the origination fee specified above. If Borrower and Guarantor fail to meet this requirement, Lender may deem this offer to be withdrawn. If, after timely acceptance of this offer, Borrower fail to close the Loan by July 25, 2010, Lender may deem its commitment void and of no further effect.

14. Closing Costs. On or before closing, and whether or not the Loan closes, Borrower must pay all of Lender's costs of closing the Loan, whether payable to Lender or third parties, including, but not limited to,

overnight mailing charges (if applicable), recording costs, fees for searches and credit reports, fees for appraisals, environmental and engineering reports, title insurance and Lender's legal fees and expenses.

15. Authorization for Credit Inquiries. By executing this offer letter, Borrower and Guarantors authorize Lender to make any and all credit inquiries deemed necessary by Lender as part of its underwriting process.

16. Miscellaneous.

(a) Lender may sell or assign its interest in the Loan at any time, in whole or in part, at its sole discretion.

(b) This letter is an integration of all prior and present promises and agreements between Borrower and Lender, and it may not be modified except by a writing signed by both parties.

(c) All times and dates specified in this letter are of the essence.

(d) From the date of closing until the completion of construction, Borrower will prominently display Lender's name on any signage placed by Borrower on or around the Premises to advertise the financing of the Project.

(e) Borrower agrees that Lender may publish the names of Borrower and Guarantor and photographs of the Project to publicize Lender's community development lending activities. Lender agrees that it will not report the amount of the Loan for any such publicity purposes.

(f) This offer letter is to be construed in accordance with the laws of the State of Nevada without regard to conflict of laws principles.

(g) By accepting this offer, Borrower agrees that this commitment, like all of Lender's commitments, is issued based upon Lender's actual knowledge of the financing transaction as currently proposed by Borrower, and the state of Borrower's and Guarantor’s financial condition and management structure. If any event of default should occur under any existing obligation of Borrower or Guarantor to Lender; if any legal or administrative action should arise against Borrower or Guarantor or any of their affiliates of related entities that, in the reasonable judgment of Lender will or might have an adverse impact on the Project, the value of the Premises as collateral or on the ability of the Borrower to improve the Premises, or if any material change occurs between the date of this offer letter and closing in: (i) the financing structure of this transaction or the entities participating in it; (ii) the organizational or management structure of Borrower or Guarantor any of its affiliates or related entities; (iii) the financial stability of Borrower or Guarantor or any of its affiliates or related entities, or (iv) the condition or nature of the proposed collateral set out in this offer letter, then Lender may, at Lender's sole discretion, impose additional or different terms and conditions to closing, or withdraw its commitment altogether.

Sincerely,

____
Ms. Loan Officer

ACCEPTED, AGREED TO, AND INTENDING TO BE LEGALLY BOUND THIS ___ DAY OF JUNE, 2010.

THE COMPANY, INC.

By: ____________________________________
Name: _________________________________
Title: __________________________________

Sources

(1) **Agnese, Joseph**. *Industry Surveys Supermarkets & Drugstores.* New York: Standard & Poor's, 2010.
(2) **IBISWorld.** *IBISWorld Executive Summary Industry Report: Supermarkets & Other Grocery Stores.* Santa Monica : IBISWorld, 2010.
(3) ***Independent Grocers,*** By *Credit Considerations III,* v3, 93-95, 3 pages 1992 Updated in 1998 Supplement Updated in 2001; Updated in 2002.)
(4) S&P Industry Survey – Quantitative Factors Source – citation needed
(5) IBISWorld Executive Summary Industry Report, June 18, 2010. Supermarkets and Other Grocer (except Convenience) Stores.
(6) **Chain Store Credit Review: The State of the Art**, By Volk, Christopher H.
(7) ***Chain Store Credit Review: The State of the Art, Part 2 of 2,*** By Volk, Christopher H.