



“Initial Funding” Requirements - Depositor Protections

Each project financed through the wholesale lending program requires that a deposit, which represents 20% of the project cost if provided by the borrower, or 25% of the project cost if provided by a third-party, be placed in escrow as the project’s “initial funding.”

This “initial funding” allows the lender to take advantage of its own extensive credit facilities to lend up to four times the amount of the initial funds.

The principal for the “initial funding” is never at risk:

- The funds that are placed on deposit in an escrow account as the project’s “initial funding” are not used as collateral for the loan (which will be secured by a General Security Agreement between the wholesale lender and the borrower on the project assets financed by the loan, along with an insurance policy purchased by the wholesale lender that covers any potential loss by the wholesale lender).
- The initial funding is never encumbered in any way.
- The escrow account will be set up by the depositor, with the stipulation in both the deposit agreement and the agreement with the wholesale lender that the funds on deposit only can be released to the depositor.
- Once the funds from the loan have been disbursed (which is done on a monthly basis over 8-10 months), the initial funds will be returned in full to the depositor.
- If something should occur during the disbursement of the loan’s funds which causes the loan to go bad, the initial funds will be released in full back to the depositor.
- Once the initial funds are returned, the depositor has no further obligations to the wholesale lender or the borrower.

“Initial Funding” Requirements

The sole requirements of the entity providing the “initial funding” are to:

1. Provide proof of funds as part of the project financing documents that are submitted to the lender for underwriting;
2. Review and agree to the lender’s deposit requirements for the “initial funds;”
3. Enter into an agreement with the borrower, if the “initial funding” is being provided by a third-party, that specifies the return that the third-party will earn by placing its funds on deposit during the period that the loan funds are being disbursed (generally 8-12 months). This return can be in the form of interest, equity, or a combination of interest and equity. Any interest cost associated with this return on funds can be financed as part of the loan’s financing costs. This interest rate can 10% APR, which is standard for these types of loan agreements, but no higher. Any additional return to the third-party would need to be in project equity.
4. Agree that these funds will remain completely undepleted and unencumbered – by both the entity providing the “initial funding” and the lender – throughout the disbursement of the loan, and will be returned to the entity providing the “initial funding,” as the original depositor, once the loan funds have been fully disbursed;

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5. Agree to add one of the lender's compliance officers to the account so that the officer can "view" the account at the officer's discretion to ensure that the funds in the account are never drawn down or encumbered during the period while the loan is being disbursed;

Note: The compliance officer will have no other access to the account and can never do anything to the account except to view it; if the bank used by the entity providing the "initial funding" will only allow the compliance officer to view the account if the officer is a signatory on the account, then the "initial funding" entity can set up the account so that two signatures are required for all account transactions, adding another signatory of its own, so there are three signers on the account, two of which are the "initial funding" entity's signatories, which will ensure that the entity providing the "initial funding" maintains control of the account at all times;

6. Make the required "initial funds" available and, at least 60 days prior to closing, deposit these funds in an account at the Federal Reserve Bank to which the funds can only be released to the originator of the deposit (i.e., the entity providing the "initial funds") or, if the deposit is more than \$10 million, the funds can stay in the entity's own bank account, providing the bank is a top tier bank.

Protections for the Entity Providing the "Initial Funding"

Please note: At no time during **Steps 1-5** above does the entity providing the "initial funding" have to pay any fees (except to its own legal counsel) or advance any funds.

The funding process is designed to prove itself as the process proceeds, allowing the entity providing the "initial funding" sufficient time to review all requirements and documents related to the "initial funding" deposit, resolve any questions the entity might have about participating in the program, and to accept or reject these agreements, prior to paying or advancing any funds and prior to placing the "initial funds" on deposit.

Please note as well: The documents related to the deposit of the "initial funding" will make it clear that:

- The funds that are being placed on deposit will have no liens placed on them and will not be encumbered in any way, and
- The funds will be returned to the depositor unencumbered and undepleted once the full amount of the loan has been disbursed.

The only party with funds at risk is the wholesale lender, and its funds are secured with a GSA on the project and its insurance against loss.

Should you wish to explore this wholesale financing option further, American Diversified Energy will be happy to schedule a call with one of the wholesale lender's officers so you can learn more about the program prior to proceeding.