# An Introduction to the Wholesale Lending Program

**American Diversified Enterprises and its Project Financing Assistance (PFA) consulting service** has developed a partnership with a privately owned wealth lending program that offers a high level of project acceptance and wholesale interest rates.

Some highlights of the program include:

- **Wholesale lenders typically lend only to banks,** equity funds, and other retail lenders (as this wholesale lender does); however, this wholesale lender is unique in that it also offers wholesale capital directly to project developers and business owners, which it began doing in 2018
- **Loans are available for projects costing from $5 million** up into multiple billions of dollars
- **The loans require a commitment of initial funds for either 20% or 25% of a project's costs**
- **Once a minimum of $1 million USD has been made available in cash and pledged to the project,** the wholesale lender can then offer to loan virtually any amount in multiples of 4x the initial funds that are being pledged to the project
- **Should the balance of the initial funds come from the borrower** 20% of a project's cost will need to be available to proceed with the loan request
- **Should the initial funds come from a third party** 25% of a project's cost will need to be available to proceed with the loan request
- **Loans are interest-only for a term of four years** (twice the interest-only period which most lenders offer), and are designed to cover final development and pre-construction costs (which often are the most difficult to finance), as well as construction / renovation / fabrication, commissioning / startup, and initial operations / deployment
- **Interest rates** are a flat 3.5% or LIBOR+2, whichever is greater at time of loan contract signing
- **The loan can be paid off, paid down, or refinanced at the end of its four-year term** through 15- or 30-year mortgages (which currently have interest rates of less than 3%), based on the life of the project, or through other long-term loans or financial instruments, which can be arranged through the wholesale lender or the borrower's bank
- **The wholesale lender does not pool capital** from a stable of investors as most lenders do, but lends from its own capital which comes from its private business operations and the lines of credit that it is able to secure from its primary bank, HSBC in London
- **Because the lender is not a bank or financial institution,** the lending program operates quite differently from the traditional lending process with which borrowers, financial officers, financial consultants, and lending professionals are familiar
- **To address the questions and concerns that may arise because of this,** or because it may seem **too good to be true,** the wholesale lending program has been designed as a "no-risk process that proves itself"
  - ✓ The wholesale lender charges no fees whatsoever prior to closing, no application fee, no fees for due diligence, and no fees for legal counsel
  - ✓ Instead, the lender absorbs all costs and assumes all risk for the loan up to closing

- ✓ Hence, there is no cost to the borrower or the investor providing the "initial funding deposit" until closing
- ✓ The investor providing the "initial funding deposit" only needs to provide an initial proof of funds at the time the loan documents are submitted to the wholesale lender
- ✓ No deposit of funds is required until after the 60-day due diligence period has been completed and all agreements related to the deposit have been thoroughly reviewed and agreed upon
- ✓ The borrower and investor providing the "initial funding deposit" can walk away from the loan process at any time for any reason prior to closing without any risk or liability
- ✓ The "initial funding deposit" also is never at risk; no liens or encumbrances are placed on the funds at any time; the deposit agreement stipulates that the funds can be returned only to the depositor following the 12 month and 1 day period for which they must be held in escrow; moreover, they are released in full at the end of this holding period without having to be invested in the project and without further requirements or obligations (see separate explanation of the wholesale lending program's "Initial Funding Requirements – Depositor Protections" for more information)

- **The loan is secured solely by the project** for which the loan is used; the wholesale lender will have a General Security Agreement (GSA) on the project; no further collateral will be required
- **The wholesale lender does not require any personal or corporate guarantees,** will not place a lien on the initial funds pledged to the project, or attach any assets unrelated to the project
- **The purpose behind this lending approach is to advance promising projects,** which may have been or are likely to be passed over by other banks, retail lenders, and venture capital and Angel investors, so that the projects can move forward from their planning stages into full commercial operation and deployment
- **The only stipulation for a project that is under development** is that it must be able to reach full operation and generate sufficient revenue for a period of at least 12 months and 1 day so that it is fully "bankable" at the end of the four-year loan period
- **Types of projects funded:** The wholesale lender provides debt financing to a wide variety of projects – real estate, technology, film and entertainment, manufacturing, energy, infrastructure, industrial facilities, hotels, resorts, agriculture, transport, waste reclamation, and so forth, including projects that are launching new products, services, or technologies which have been fully tested / validated / piloted and are ready to be commercialized
- **Unlimited possibilities:** If the wholesale lender determines that the business opportunity is a good one, then it is open to virtually any business that is not illegal or located in a politically sensitive jurisdiction
- **This is not a loan for borrowers who are under a "time crunch,"** or require all funds at once (funds most often are disbursed on a monthly basis over an 8-10 month period)
- **LOIs:** Once the wholesale lender has completed its initial review of the project (which includes a risk assessment by Price Waterhouse Cooper) and believes the loan request is likely to meet its requirements, the wholesale lender will provide a Letter of Interest (LOI) to the borrower for use with its board, investors, or other third parties to demonstrate that the project can be financed in full once the necessary initial funds have been pledged
- **The initial funds deposit:** It is the existence of the borrower's project, coupled with the initial funds that are being pledged to the project, that makes the wholesale lender's 4-1 loans

possible. The wholesale lender does this through its banking partner (HSBC in London) that positions the borrower's initial funds so the wholesale lender can use its extensive credit lines to fund the loan, along with the loan preparation costs (due diligence, appraisals, and banking compliance), and the insurance the wholesale lender uses to protect itself against any potential losses on a loan

- **Here's how the wholesale lender and borrower both benefit:**
  - ✓ HSBC London adds several multiples of the initial funds in new credit to the wholesale lender's credit lines, using the amount of the initial funding for Tier 1 capital which is removed once the initial funding deposit is released back to the depositor
  - ✓ This new credit is not only sufficient to cover the 4x multiple for the project loan, but opens additional credit to the group of privately owned corporations, of which the wholesale lender is a part, which allow these companies to place these funds in trade
  - ✓ This is the way in which the wholesale lender makes money on its loans and why it can offer favorable rates and terms
- **The only requirement of the initial funds** is that they remain completely undepleted and unencumbered throughout the disbursement of the loan funds (generally 8-12 months)
- **No lien is placed on these funds nor are they pledged as collateral** in the deal or encumbered in any way
- **The funds that are provided to meet the initial funds requirement must sit idle** on the sidelines, without ever being encumbered or depleted, and are protected from risk while the loan funds are being disbursed
- **These funds can either be deposited in an account at the Federal Reserve Bank** to which the funds only can be returned to the originating depositor, **or if the deposit is more than $10 million, the funds can stay in the investor's own bank account,** providing the bank is a top tier bank
- **If the funds are kept in the investor's own bank,** the funds must be placed in an account to which one of the lender's compliance officers is added 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 8-12-month period while the loan is being disbursed
- **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 third party's bank can only add the compliance officer as a signatory on the account, then the third party 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 third party's signatories
- **The loan proceeds are disbursed on a monthly basis,** rather than as project milestones are reached; the monthly disbursements represent a percentage of the loan, starting at 6% to 6.5% of the loan amount the first month and increasing on a monthly basis until the loan has been fully disbursed over an 8-10 month period
- **The borrower does not have to draw down any loan amounts until the proceeds are needed;** the disbursements represent the amounts available to the borrower; interest is only charged on the loan proceeds once the borrower has drawn the funds down
- **Should the first month's disbursement not cover the initial amount needed by the borrower,** say, for a property or equipment purchase, the borrower will need to schedule

these purchases in a month when sufficient loan proceeds have become available to make the purchase

- **Once the loan proceeds are fully disbursed,** the initial funds are released. If the initial funds represent 20% of the project cost, these funds can then be used to finish the project. In the case of a third-party's 25% in initial funds, which results in a loan which is a 4x multiple of the initial funds, the loan will fund 100% of the project and the funds can be returned in full to the third party, along with the amount of interest, equity, or interest and equity that has been agreed upon between the borrower and the third party
- **Closing costs:**
  - ✓ At closing, the wholesale lender will charge a **3% lending fee** on the amount that is being loaned; this can be included as part of the loan as a financing cost and will be paid out of the first disbursement
  - ✓ If the initial funds are provided by a third party, the borrower and third party will enter into an agreement which specifies the amount of interest, equity, or interest and equity that the third party will earn. Any interest paid to the third party can be covered by the loan, since these costs can be included as part of the loan's financing cost
  - ✓ Closing costs are the responsibility of the borrower and typically are much less than **1% of the loan amount**
- **Ongoing costs during the term of the loan:**
  - ✓ PFA charges a monthly project management consulting retainer for the term of the loan to provide information, guidance, and advice throughout the course of the wholesale lending process, including assistance in carrying out each phase of project development, execution, and operation consistent with the loan and its project requirements. The amount of the monthly retainer is negotiated between FF&IA and the borrower. The total amount of the monthly retainers generally represents approximately **1% of the loan amount**
  - ✓ A custodian fee of **$5,000 per month** will be charged by a third-party custodian who will oversee the loan disbursements on behalf of the wholesale lender, ensure the use of funds matches the drawdown schedule that the borrower has provided to the lender, monitor the project to ensure it remains on track, and manage the repayment of interest and principal
  - ✓ Both of these costs can be incorporated into the loan amount
- **How long does this take?** The time required to complete a standard deal and begin disbursing funds is approximately 90 – 120 days from submission of the required project financing documentation through risk analysis, due diligence, banking compliance, and closing

Should you have any questions about this wholesale lending program or wish to discuss it further as a potential source of debt financing, please contact: Gabriel Montana, Senior Vice President, Financing Assistance Consulting Services, info@pfa.llc, or CJ Evans, Managing Director, American Diversified Enterprises, cj@ade.llc.