Credit Memorandum

Date:	**April 14, 2022**
Credit Union:	**CREDIT UNION**
Relationship Manager:	**RELATIONSHIP MANAGER**
Analyst:	**ANALYST**
Borrower:	**BORROWER**

Borrower Summary			
Address	Borrower's Address	**Credit Score**	N/A
NAICS Code	531110	**MBFS Risk Rating**	4-Pass
Aggregate Relationship	$514,500	**Avg. Deposits**	$25.04
Borrower DSCR	0.82x (2021) 1.02x (pro-forma)	**Global DSCR**	1.59x (2021) 1.60x (pro-forma)

Guarantor(s)	**Address**	**Credit Score**	**Ownership %**
GUARANTOR 1	Guarantor's Address	734	50%
GUARANTOR 2	Guarantor's Address	775	50%

Loan Type	**Amount**	**Term**	**Amortization**
Real Estate Loan	$514,500	5 Years	30 Years

Rate	**Rate Type**	**Adjusts Every**	**Index**	**Margin**	**Rate Floor**	**Rate Ceiling**
4.75%	Fixed	-	5 Year TCM	-	4.75%	-

Estimated Fees	**Estimated Amounts**
Origination Fee	$5,145
Underwriting Fee	$1,000
Doc Prep Fee	TBD

Collateral Type	**Address/Description**	**Est. Value**	**Est. LTV**
Multifamily (5+ units) Property	COLLATERAL ADDRESS	$735,000	70%

Purpose	Payoff and close an existing CREDIT UNION LOAN, as well as, recapture a small portion of equity that will be reinvested into future real estate investment projects.		
Sources	**Amount**	**Uses**	**Amount**
American Heritage FCU	$514,500	Payoff CU LOAN #XXXXX	$229,742
		Cash out	$284,758
Total	$514,500	**Total**	$514,500

Collateral

Asset Type	Multifamily (5+ units) Property		
Description	COLLATERAL ADDRESS		
Estimated Value	$735,000	**Source of Value**	Borrower Estimate
Estimated LTV	70%	**Advance Rate**	80%
Purchase Price	$315,000	**Purchase Date**	12/1/2016
Lien Position	☒ 1st Lien Position ☐ 2nd Lien Position	**Security Method**	☒ Property search ☒ Title Insurance ☒ Assign. of Rents/Leases
Analysis	The subject property is a two-story multifamily building with finished basement that contains a total of 6, 1-bedroom, 1-bathroom apartment units. The gross building area is approximately 4,800+/- square feet including the finished basement. The property was originally built in 1960 with average rental upgrades over the years. It is currently 100% occupied. Provided leases are month to month and leased as follows: Unit #1 is leased for $800, unit #2 is leased for $650, unit #3 is leased for $650, unit #4 is leased for $800, unit #5 is leased for $750 and unit #6 is leased for $800. Total annual rents equal $4,450/month or $53,400 in gross rents.		

Sources of Repayment

Primary	Rental income from investment property
Secondary	Global cash flow
Tertiary	Liquidation of collateral

Relationship ☐ This document also serves as the annual reviews of the following relationship(s):

Loan #	**Borrower**	**Date**	**Original Balance**	**Current Balance**
1-1-13281*	BORROWER	12/30/2016	$252,000	$229,742
TBD	BORROWER	TBD	$514,500	-

*To be refinanced with this request, therefore, loan amount was not included in the total exposure on page 1.

Background on Borrower, Guarantors, and Loan Request

The following was provided by the Relationship Manager at the CU:

BORROWER is a real estate holding company that was established in 10/2016 for the sole purpose of acquiring and managing the subject property.

LLC Member and guarantor, GUARANTOR 2, is and has been a Rabbi/ Teacher for the past 15 years, currently working at The Mesivta High School of Greater Philadelphia office, located in Lansdowne, PA. Rabbi GUARANTOR 2 moved to Elkins Park, PA ten years ago to serve as Kollel Director of Eitz Chaim of Philadelphia. Rabbi GUARANTOR 2 as serves as the Director of Outreach and Education for the Young Israel of Elkins Park and is a member of the Bais Din of Philadelphia. After receiving semicha from Yeshivas Chofetz Chaim in Queens, Rabbi GUARANTOR 2 attended Yeshivas Bais Yosef-Novhordok and received intensive Halachic training under noted author and posek, Rav Binyomin Forst. In addition, he holds a bachelor’s degree in psychology from Touro College.

LLC Member and guarantor, GUARANTOR 1 is and has been the manager of labor advocacy for SEPTA transportation for the past 9 years. Prior to his role within the SEPTA organization Mr. GUARANTOR 1 practiced several different facets of law, but concentrated on labor issues.

Purpose of Loan:

Payoff and close an existing American Heritage loan #1-1-13281, as well as, recapture a small portion of equity that will be reinvested into future real estate investment projects.

Financial Statements

Borrower(s):	BORROWER • 2018-2021 Business tax returns • Lease agreements • Site visit dated 4/1/2022
Guarantors(s):	GUARANTOR 1: • 2018-2020 personal tax returns; 2021 W2 • Personal financial statement dated 12/26/2021 • Schedule of Real Estate • Personal credit report dated 3/26/2022 GUARANTOR 2: • 2018-2021 personal tax returns; • 2020-2021 K-1’s for related entity • Personal financial statement dated 12/28/2021 • Personal credit report dated 3/26/2022

FINANCIAL ANALYSIS

Personal Financial Analysis for GUARANTOR 1:

Net Worth

It should be noted that jointly held assets with a spouse, who is not a party in the transaction, may influence the capital capacity. Per the personal financial statement dated December 26, 2021, GUARANTOR 1 has a stated net worth of $3,689,440 based upon assets of $4,760,177 and liabilities of $1,070,737. When excluding closely held business interest valued at $425,000, GUARANTOR 1 has an adjusted net worth of $3,264,440. Liquid assets total $370,150 and consist solely of cash. The stated cash on hand can cover 12 months of personal debt service. Account statements were provided and verified the liquidity. GUARANTOR 1 indicated $659,527 in retirement accounts that were not added into the liquidity calculation as they are not readily available and carry significant penalties and taxes if withdrawn prematurely. Other assets consisted of automobiles/personal property valued at $5,500. Long-term assets consisted of primary real estate valued at $650,000 which secures $127,061 in mortgage debt and investment real estate valued at $2,650,000 which secures mortgage debt of $927,976. In addition to the already mentioned mortgage debt, GUARANTOR 1 disclosed revolving debt of $15,700.

Debt to Outside Net Worth: 0.33 or 33%, which indicates a low level of outstanding debt owed, as compared to the total value of personal assets (less all liabilities).

Per the credit report dated March 26, 2022, GUARANTOR 1 has a credit score of 734 with 22% open revolving availability. The credit report indicates all trades have been paid as agreed.

ASSETS	12/26/2021
Cash - savings accounts	$370,150
Personal Property (autos, jewelry, etc.)	$5,500
Retirement Funds (eg. IRAs, 401k)	$659,527
Real Estate (market value)	$650,000
Value Closely Held Business Entity	$425,000
Investment Real Estate	$2,650,000
Total Assets	**$4,760,177**
LIABILITIES	
Current Debt (Credit cards, Accounts)	$15,700
Real Estate Mortgages	$127,061
DS Investment Real Estate	$927,976
Total Liabilities	**$1,070,737**
STATED NET WORTH (SUBTOTAL)	
Total Stated Net Worth (subT)	$3,689,440
Ratio. Debt: Worth	0.29
Total Adjusted Net Worth	
Assets	$4,760,177
(Liabilities)	-$1,070,737
Adjustments to Net Worth	-$425,000
Total Adjusted Net Worth	**$3,264,440**
Ratio. D:ANW	**0.33**

Personal Cash Flow

GUARANTOR 1 provided 2018-2020 personal tax returns as prepared by Bob Raggi, CPA of Raggi Lisowski, LLP, CPA's, located in Huntingdon, PA 19006. The tax returns were prepared on a joint basis with his spouse, however, her income and taxes have not been included as she is not a personal guarantor on the loan request. GUARANTOR 1 also provided his 2021 W2 and a P&L through March of 2022 for his Schedule C business.

GUARANTOR 1's personal cash flow demonstrates a DSCR of 3.38x based upon the 2020 personal financial information received for analysis compared to 3.79x in 2019 and 4.64x in 2018. Total income during the three-year period of review has increased from $118,060 in 2018 to $148,271 in 2019 before declining slightly to $147,432 in 2020 as GUARANTOR 1 reported less interest/dividend income in 2020 while wages and business income increased over the prior periods. Income sources include wages as a Real Estate Manager, interest/dividend income, distributions of $6,120, less capital contributions of $4,188 from/to the borrowing entity and business income from his Real Estate Management Company Black Hat Equity, LLC as shown on Schedule C of his personal tax returns. Business income, after addbacks for depreciation and interest expense, totaled $14,593 in 2020 compared to $10,502 in 2019 and $1,001 in 2018. Expenses for the period ending 2020 were derived from living expenses (20%) and taxes paid (federal and state). Total personal debt of $33,120 was derived from mortgage, installment and revolving debt per the recent personal credit report.

The analyst prepared a pro-forma cash flow which demonstrates a 1.57x DSCR based upon the following income/expense changes:

- Inclusion of wages per provided 2021 W2;
- Carryover of interest/dividend income;
- Inclusion of distributions/capital contributions from the borrowing entity per K1 within the 2021 business tax returns;
- Inclusion of business income per the provided P&L through March 2022 (annualized);
  - Net income of $106,632 based upon revenues of $142,500 and expenses of $35,868. It should be mentioned that GUARANTOR 1 indicated all rental activity flows through Black Hat Equity, LLC and is reported on the Schedule C.
  - The CU needs to have a clear understanding of the rapid growth in net income for the Schedule C business as they grew from a loss of ($110,987) to a net income of $106,000.
- Recalculation of living expenses and taxes paid as income changed for the period; and,
- Carryover of debt plus inclusion of other mortgage debt for properties owned per the provided real estate schedule that originated in 2021.

GUARANTOR 1	**12/31/2018**	**12/31/2019**	**12/31/2020**	**Projected**
INCOME	**Tax Return**	**Tax Return**	**Tax Return**	
Wages	$117,046	$120,117	$125,721	$124,622
Interest/Dividend Income	$13	$14,812	$5,186	$5,186
Distributions < Capital Contributions	$0	$2,840	$1,932	$9,950
Net Income	-$9,549	-$3,138	-$110,987	$106,632
Interest Expense	$0	$2,953	$17,293	$0
Depreciation Expense	$10,550	$10,687	$108,287	$0
Total Schedule C Income	**$1,001**	**$10,502**	**$14,593**	**$106,632**
Total Income (subT)	**$118,060**	**$148,271**	**$147,432**	**$246,390**
DEDUCTIONS				
Living Expenses	$23,612	$29,654	$29,486	$49,278
Income Tax Expense	$14,098	$34,822	$6,115	$32,031
Total Adjustments to CF	**$37,710**	**$64,476**	**$35,601**	**$81,309**
Gross Cash Flow (subT)	**$80,350**	**$83,795**	**$111,831**	**$165,081**
DEBT SERVICE				
Mortgage	$9,216	$14,040	$25,032	$97,248
Installment	$4,320	$4,320	$4,320	$4,320
Revolving	$3,768	$3,768	$3,768	$3,768
Total Debt	**$17,304**	**$22,128**	**$33,120**	**$105,336**
Excess Funds	**$63,046**	**$61,667**	**$78,711**	**$59,745**
DSCR	**4.64**	**3.79**	**3.38**	**1.57**

Personal Financial Analysis for GUARANTOR 2:

Net Worth

It should be noted that jointly held assets with a spouse, who is not a party in the transaction, may influence the capital capacity. Per the personal financial statement dated December 28, 2021, GUARANTOR 2 has a stated net worth of $890,300 based upon assets of $1,546,440 and liabilities of $656,140. Liquid assets total $89,440 and consist of $79,965 in cash and $9,475 in marketable securities. The stated cash on hand is more than sufficient to cover 12 months of personal debt service. Account statements from Citizens Bank, Capital One and USAA verified $67,269 in liquidity while the remaining liquidity was not verified by third party account statements. It should be mentioned that the statements were dated from October, November and December 2021. The CU should obtain updated account statements to verify the liquidity. Other assets consisted of automobiles valued at $27,000. Long-term assets consisted of primary real estate valued at $415,000 which secures mortgage debt of $295,439 and investment real estate valued at $1,015,000 which secures mortgage debt of $358,701. In addition to the already mentioned mortgage debt, GUARANTOR 2 disclosed revolving debt of $2,000.

Debt to Net Worth: 0.74 or 74%, which indicates a high level of outstanding debt owed, as compared to the total value of personal assets (less all liabilities).

Per the credit report dated March 26, 2022, GUARANTOR 2 has a credit score of 775 with 75% open revolving availability. The credit report indicates all trades have been paid as agreed.

ASSETS	12/28/2021
Cash - savings accounts	$79,965
Securities - stocks / bonds / mutual funds	$9,475
Personal Property (autos, jewelry, etc.)	$27,000
Real Estate (market value)	$415,000
Investment Real Estate	$1,015,000
Total Assets	**$1,546,440**
LIABILITIES	
Current Debt (Credit cards, Accounts)	$2,000
Real Estate Mortgages	$295,439
DS Investment Real Estate	$358,701
Total Liabilities	**$656,140**
STATED NET WORTH (SUBTOTAL)	
Total Stated Net Worth (subT)	**$890,300**
Ratio. Debt: Worth	**0.74**

Personal Cash Flow

GUARANTOR 2 provided 2018-2021 personal tax returns as prepared by Richard Weinberg of Flushing, NY 11367. The tax returns were prepared on a joint basis with his spouse, however, her income and taxes have not been included as she is not a personal guarantor on the loan request. The below analysis takes into account the three most recent years of financials.

GUARANTOR 2's personal cash flow exhibits a DSCR of 2.06x based on the 2021 personal financial information received for analysis compared to 2.11x in 2020 and 1.58x in 2019. income during the three-year period of review has increased from $111,346 in 2019 to $114,437 in 2020 to $139,175 in 2021 as wages, distributions received and rental income increased in 2021. Income sources were derived from wages from Rabbi, interest/dividend income, distributions from the borrowing entity and rental income from one investment property as shown on Schedule E of the personal tax returns. GUARANTOR 2 received distributions from the borrowing entity of $10,850 in 2021 compared to $6,220 in 2020 and $2,840 in 2019. In addition, GUARANTOR 2 made capital contributions of $4,188 in 2020 as well to the borrowing entity. It should be mentioned that GUARANTOR 2 reported capital gains of $59,440 in 2021, however, the analyst excluded these from the cash flow as the capital gains appear to be from the sale, exchange or disposition of related entities which are gains from business capital that flows through to the individual for tax purposes. Expenses for the period ending 2021 were derived from a 20% living expense factor and taxes paid (federal and state). Total personal debt of $40,260 was derived from mortgage and revolving debt per the recent credit report.

The analyst prepared a pro-forma cash flow which demonstrates a 1.84x DSCR based upon the following income/expense changes:

- Carryover of wages, interest/dividend income and rental income (an updated rent roll was not available at time of underwriting);
    - The CU should obtain and review an updated rent roll to verify that rental income is in line with projections.
- Exclusion of distributions as historic amounts varied and future amounts are unknown and cannot be predicted;
- Recalculation of living expenses and taxes paid as income changed for the period; and,
- Carryover of debt.

GUARANTOR 2	**12/31/2019**	**12/31/2020**	**12/31/2021**	
INCOME	**Tax Return**	**Tax Return**	**Tax Return**	**Projected**
Wages	$107,157	$107,963	$110,272	$110,272
Interest/Dividend Income	$1,349	$1,748	$4,267	$4,267
Distributions < Capital Contributions	$2,840	$2,032	$10,850	$0
Net Income	$0	-$530	$3,476	$3,476
Interest Expense	$0	$1,581	$4,679	$4,679
Depreciation Expense	$0	$1,643	$5,631	$5,631
Total Schedule E Income	**$0**	**$2,694**	**$13,786**	**$13,786**
Total Income (subT)	**$111,346**	**$114,437**	**$139,175**	**$128,325**
DEDUCTIONS				
Living Expenses (AMH 20%)	$22,269	$22,887	$27,835	$25,665
Income Tax Expense	$12,603	$14,910	$32,974	$21,930
Total Adjustments to CF	**$34,872**	**$37,798**	**$60,809**	**$47,595**
Gross Cash Flow (subT)	**$76,474**	**$76,639**	**$78,366**	**$80,730**
DEBT SERVICE				
Mortgage	$27,612	$39,720	$39,720	$39,720
Revolving	$540	$540	$540	$540
Total Debt	**$28,152**	**$40,260**	**$40,260**	**$40,260**
Excess Funds	**$48,322**	**$36,379**	**$38,106**	**$40,470**
DSCR	**1.58**	**2.11**	**2.06**	**1.99**

Business Financial Analysis for BORROWER

The borrowing entity is a real estate holding company that was established in October 2016 for the sole purpose of acquiring and managing the subject property. The entity is jointly owned by guarantors GUARANTOR 1 (50%) and GUARANTOR 2 (50%). The borrower provided 2018-2021 business tax returns as prepared by Bob Raggi, CPA, locating in Huntingdon Valley, PA 19006. The below analysis takes into account the three most recent years of financials.

Operating Statement

During the three year period of review, rents have fluctuated slightly from $51,647 in 2019 to $48,434 in 2020 to $51,547 in 2021. Operating expenses appear typical for a real estate holding company and totaled $17,885 in 2021 compared to $16,871 in 2020 and $16,736 in 2019. As a whole, operating expenses consisted of insurance, legal/professional, repairs, taxes, utilities and other related operating expenses. Depreciation and interest expense totaled $24,694 in 2021 compared to $30,559 in 2020 and $27,388 in 2019. The bottom line was net income of $8,968 in 2021 which is an improvement from a net income of $1,004 reported in 2020 and a net income of $7,523 reported in 2019. The entity paid out distributions of $20,800 in 2021 compared to $12,340 in 2020 and $5,680 in 2019. The entity also received capital contributions of $8,376 from the owners in 2020.

Rent Roll

According to the borrower, the subject property is a two-story multifamily building that is fully leased. A copy of a rent roll was not provided, however, leases are on file and indicated all six units are leased on a month-to-month basis. The oldest leases date back to 2017 for three units while the other three units recently commenced in 2020. According to the provided lease agreements, the property generates $4,450 in monthly rental income or $53,400 in gross annual rents. The entity anticipates a net operating income of $32,845, less a 5% vacancy factor, carryover of historical operating expenses, less depreciation and interest expense, as well as, exlsuion of distributions as future amounts are unknown and cannot be predicted.

Balance Sheet

The 2021 balance sheet exhibits a net worth of $101,229 compared to $113,061 in 2020 and $116,021 in 2019. Capital for the period consisted solely of retained earnings. Assets have declined 7% from 2019 to 2021, totaling $361,318 in 2019, $352,525 in 2020 and $336,013 in 2021. The decline appears to be from a decline in cash accounts coupled with an increase in depreciation reported on net fixed assets. Current assets totaled $6,076 and was comprised solely in cash accounts. An account statement from the CU indicated $25 on deposit while the remaining liquidity was not verified by third party account statements. The CU should obtain and review account statements to verify the remaining liquidity position and ability to support the repayment of debt in the event of cash flow interruptions. The listed cash is sufficient to cover approximately 2.5 months of the entity's annual debt service. Non-current assets totaled $329,937 and consisted of land valued at $32,686 and net fixed assets after accumulated depreciation of ($73,111). Liabilities have declined 4% from 2019 to 2021, totaling $245,297 in 2019, $239,464 in 2020 and $234,784 in 2021 as long-term debt has been paid down. Current liabilities totaled $3,800 and consisted solely of security deposits. Non-current liabilities consisted solely of long-term debt held by the CU.

Debt Service Ability

In 2021, the entity demonstrated cash available for debt service of $12,862 compared to $27,599 in 2020 and $29,231 in 2019. The 2021 CAFDS was based upon the net income of $8,968 plus the add-back of depreciation of $13,596 and interest expense of $11,098, less distributions of $20,800 paid to the owners. Debt service totals $15,780, indicating a DSCR of 0.82x in 2021 compared to 1.75x in 2020 and 1.85x in 2019. It should be mentioned that the 2021 DSCR is below the CU recommended minimum and appears to be impacted by the distributions of $20,800 paid to the owners. On a pro-forma basis (when considering the provided leases) cash available for debt service is $32,845 when based upon gross rents of $53,400, less a 5% vacancy factor and carryover of 2021 historical operating expenses. Debt service totals $32,208 after the existing CU mortgage is refinanced with the proposed mortgage, indicating a pro-forma DSCR of 1.02x.

Industry Information

The following industry information has been derived from IBISWorld.com for NAICS – 531110; Apartment Rentals in the US:

Operators in this industry act as lessors of buildings used as residences or dwellings. Industry participants are owner-lessors of residential buildings and establishments that rent real estate and then act as lessors by subleasing it to others. In addition to apartments, the industry also rents single-family homes and town houses.

COVID-19 Impact:

- Revenue for the Apartment Rental industry is expected to rise marginally in 2020 and in 2021 as inflation pushes rent up.
- Rising inflation is pushing up costs of operation and rent, further challenging consumer affordability.
- Competition with homeownership has never been fiercer, with the COVID-19 (coronavirus) pandemic driving significant demographic change and urban flight, weakening industry revenue. The prospect of a rate increase by the Federal Reserve may curtail this home buying activity.

Executive Summary

For rent: An oversupply of rentals is expected to hamper industry revenue. Operators in the Apartment Rental industry have performed strongly over most of the five years to 2021; however, industry performance has decelerated in more recent years, showing signs of structural weakness. Since the subprime mortgage crisis, the industry has undergone structural change. Leading up to the crisis, most investment in real estate was carried out by institutional investors (those that own 10 properties or more); whereas today, most properties for rent are single-investor-owned and nonowner-occupied. Decreasing rental vacancy rates during the period enabled landlords to increase rents, aiding revenue and profit growth through most of the period. However, the global outbreak of COVID-19 (coronavirus) is expected to have severe, perplexing and long-reaching impacts on this industry. Industry revenue is expected to rise an annualized 2.7% to reach $193.9 billion over the five years to 2021, including a small bump of 0.3% in 2021.

Currently, the industry is also being affected by the global coronavirus outbreak. Trends in 2020 were less than favorable due to rising unemployment and urban flight, which caused significant decline in rents in some metro areas, while others in more suburban areas appreciated, yielding mixed performance amid a decline in vacancy. The consumer price index for all urban consumers: rent of shelter (US city average) via the St. Louis Federal and the National Apartment Rent Index, according to Apartment List, both show a trend of stagnation in 2020 and to date increases in 2021. However, in terms of inflation adjusted revenue returns to industry operators, it appears that inflation in excess of 5.0% for months has to diminished industry revenue gains despite the recent rebound in rents.

Over the five years to 2026, industry revenue is expected to decline, falling an annualized 4.3% to $155.5 billion. This anticipated decline is likely a consequence of an oversupply of luxury units, with most current growth stemming from an undersupply of affordable units, causing supply crunch in the middle market. Moreover, with the September expiration of the eviction moratorium, vacancy is expected to spike over the next five years which is anticipated to restrain landlords' pricing power and by extension, industry revenue and profit growth. Furthermore, competition with homeownership as a consequence of demographic shift is expected to drag on industry performance in line with rising vacancy and declining consumer affordability.

Industry at a Glance

Key Statistics

$193.9bn
Revenue

Annual Growth 2016–2021	Annual Growth 2021–2026	Annual Growth 2016–2026
2.7%	-4.3%	

$71.4bn
Profit

Annual Growth 2016–2021	Annual Growth 2016–2021
4.7%	

36.8%
Profit Margin

Annual Growth 2016–2021	Annual Growth 2016–2021
3.4pp	

550k
Businesses

Annual Growth 2016–2021	Annual Growth 2021–2026	Annual Growth 2016–2026
1.6%	-1.2%	

852k
Employment

Annual Growth 2016–2021	Annual Growth 2021–2026	Annual Growth 2016–2026
1.4%	-2.9%	

$22.7bn
Wages

Annual Growth 2016–2021	Annual Growth 2021–2026	Annual Growth 2016–2026
3.0%	-3.2%	

Key External Drivers

% = 2016–21 Annual Growth

0.6pp
National unemployment rate

-0.4pp
Yield on 10-year Treasury note

2.1pp
Homeownership rate

-0.3pp
Rental vacancy rates

0.8%
Urban population

Industry Structure

POSITIVE IMPACT

Revenue Volatility
Low

Industry Assistance
High / Steady

Concentration
Low

Technology Change
Low

Industry Globalization
Low / Increasing

MIXED IMPACT

Life Cycle
Mature

Regulation & Policy
Medium / Steady

Barriers to Entry
Medium / Steady

NEGATIVE IMPACT

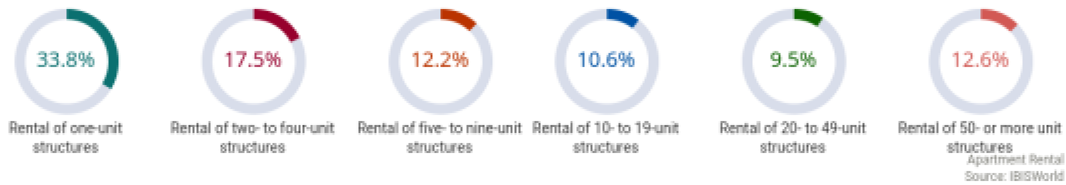
Capital Intensity
High

Competition
High / Increasing

Key Trends

- The industry is expected to suffer a wave of evictions as unemployment remains high
- Slow declines in rental vacancy have contributed to a small softening in industry profit
- 2020 is considered a turning point for the real estate sector overall and the Apartment Rental industry specifically
- Increases in rental vacancy will diminish landlords' effective pricing power
- As evictions rise amid recessionary conditions, the number of available units will also rise
- Expanding young adult and baby-boomer groups are forecast to drive demand
- Since the subprime mortgage crisis, the industry has undergone structural change

Products & Services Segmentation



Major Players

There are no major players in this industry

SWOT

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STRENGTHS

High & Steady Level of Assistance
Low Volatility
Low Imports
High Profit vs. Sector Average
Low Customer Class Concentration
Low Product/Service Concentration

W

WEAKNESSES

High Competition
Low Revenue per Employee
High Capital Requirements

O

OPPORTUNITIES

High Revenue Growth (2016-2021)
High Performance Drivers
Rental vacancy rates

T

THREATS

Low Revenue Growth (2005-2021)
Low Outlier Growth
Low Revenue Growth (2021-2026)
Urban population

Global Cash Flow Analysis

Based upon the 2020 financial information provided for the borrower and individuals, the global DSCR is sufficient at 2.42x when compared to 2.87x in 2019. The global DSCR in 2021 is 1.59x when based upon the 2021 financial information provided by GUARANTOR 2 and the borrower, as well as, GUARANTOR 1's 2021 W2 (as his 2021 tax returns were not available during underwriting). On a pro-forma the DSCR is 1.60x when based on the inclusion of the proposed mortgage, pro-forma cash flow of the guarantors, and inclusion of anticipated rental income for the subject property to be owned by the borrowing entity, less a 5% vacancy factor and historical operating expenses.

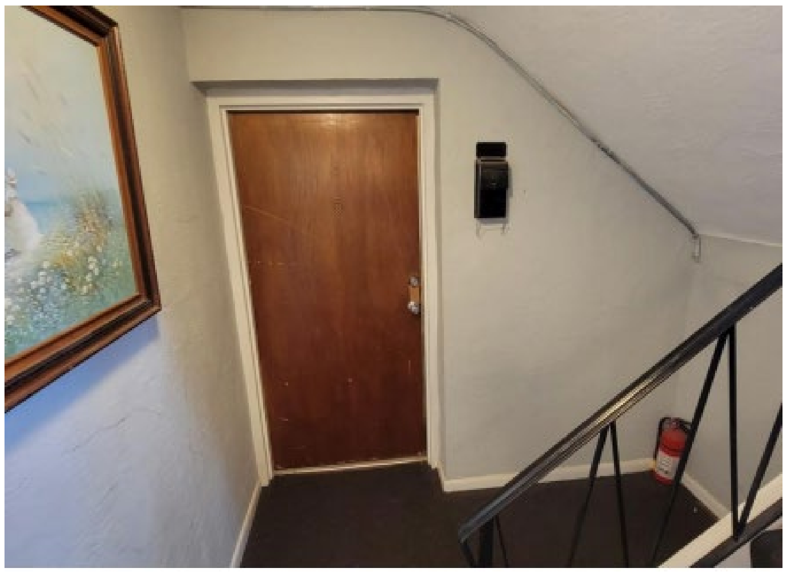
	2019	2020	2021	Projected
BORROWER	**Tax Return**	**Tax Return**	**Tax Return**	
Cash Available to Debt Service	$29,231	$27,599	$12,862	$32,845
Total Debt Service	$15,780	$15,780	$15,780	$32,208
BORROWER Excess Cash Flow	**$13,451**	**$11,819**	**($2,918)**	**$637**
BORROWER Cash Flow Coverage	**1.85**	**1.75**	**0.82**	**1.02**
GUARANTOR 1	**Tax Return**	**Tax Return**	**W2**	
Cash Available to Debt Service	$83,795	$111,831	$165,081	$165,081
Total Debt Service	$22,128	$33,120	$105,336	$105,336
GUARANTOR 1 Excess Cash Flow	**$61,667**	**$78,711**	**$59,745**	**$59,745**
GUARANTOR 1 Cash Flow Coverage	**3.79**	**3.38**	**1.57**	**1.57**
GUARANTOR 2	**Tax Return**	**Tax Return**	**Tax Return**	
Cash Available to Debt Service	$76,474	$76,639	$78,366	$87,261
Total Debt Service	$28,152	$40,260	$40,260	$40,260
GUARANTOR 2 Excess Cash Flow	**$48,322**	**$36,379**	**$38,106**	**$47,001**
GUARANTOR 2 Cash Flow Coverage	**2.72**	**1.90**	**1.95**	**2.17**
Total Combined Cash	$189,500	$216,069	$256,309	$285,187
Total Combined Debt Service	$66,060	$89,160	$161,376	$177,804
Global Excess Cash Flow	**$123,440**	**$126,909**	**$94,933**	**$107,383**
Global Cash Flow Coverage	**2.87**	**2.42**	**1.59**	**1.60**

Transactional Analysis

The subject loan request will be secured by a 1st mortgage lien on the subject property located at COLLATRAL ADDRESS. The subject property is a two-story multifamily building with finished basement that contains a total of 6, 1-bedroom, 1-bathroom apartment units. The gross building area is approximately 4,800+/- square feet including the finished basement. The property was originally built in 1960 with average rental upgrades over the years. It is currently 100% occupied. Provided leases are month to month and leased as follows: Unit #1 is leased for $800, unit #2 is leased for $650, unit #3 is leased for $650, unit #4 is leased for $800, unit #5 is leased for $750 and unit #6 is leased for $800. Total annual rents equal $4,450/month or $53,400 in gross rents.

Site Visit: Loan officer performed a site visit on April 1, 2022 and noted the property is in good condition with no signs of deferred maintenance.


EXIT




1200

Transactional Cash Flow:

The below transactional analysis demonstrates a DSCR of 1.02x based on the borrower submitted rental information with combined gross rents of $53,400/year, less a 5% vacancy rate and historical operating expenses for insurance, legal/professional, taxes, repairs/maintenance, utilities and other operating expenses. It should be mentioned that while the DSCR is sufficient, it is below the CU recommended minimum.

The analyst also performed an interest rate shock, which demonstrates the following changes in DSCRs:

- Increased interest rate by 1% to 5.75% DSCR decreases to 0.91x;
- Increased interest rate by 2% to 6.75% DSCR decreases to 0.82x; and
- Increased interest rate by 3% to 7.75% DSCR decreases to 0.74x.

In order to maintain a minimum DSCR of 1.00x rents can decline by approximately 6% to $50,093.

The analyst also performed a vacancy rate shock indicating the following:

- Increased vacancy rate to 10% (36 days vacant) DSCR decreases to 0.94x; and
- Increased vacancy rate to 15% (54 days vacant) DSCR decreases to 0.85x.

	1200-26 E. Upsal St.	^1%	^2%	^3%	Breakeven
Gross Rents	$53,400	$53,400	$53,400	$53,400	$50,093
Less:					
Vacancy Factor at 5%	$2,670	$2,670	$2,670	$2,670	$0
Net Rents	**$50,730**	**$50,730**	**$50,730**	**$50,730**	**$50,093**
Operating Expenses:					
Insurance	$3,054	$3,054	$3,054	$3,054	$3,054
Legal/Professional	$880	$880	$880	$880	$880
Repairs/Maintenance	$2,654	$2,654	$2,654	$2,654	$2,654
Taxes	$3,753	$3,753	$3,753	$3,753	$3,753
Utilities	$2,280	$2,280	$2,280	$2,280	$2,280
Other operating expenses	$5,264	$5,264	$5,264	$5,264	$5,264
Total Operating Expenses	$17,885	$17,885	$17,885	$17,885	$17,885
Available for Debt Service	$32,845	$32,845	$32,845	$32,845	$32,208
Proposed $514,500 CM	$32,208	$36,024	$40,044	$44,232	$32,208
Total Debt Service	**$32,208**	**$36,024**	**$40,044**	**$44,232**	**$32,208**
Excess/ (Deficit)	$637	($3,179)	($7,199)	($11,387)	$0
Coverage	**1.02**	**0.91**	**0.82**	**0.74**	**1.00**
Vacancy @ 10%	**0.94**	**0.76**	**0.69**	**0.62**	
Vacancy @ 15%	**0.85**	**0.69**	**0.62**	**0.56**	

Market Information

The following market information has been derived from REIS.com for the Philadelphia market area:

Market Overview

The Philadelphia apartment market is comprised of 237,347 units in twenty-eight geographic concentrations ranging in size from the 26,254 unit Center City submarket to the Olney/Oak Lane submarket, which amounts to 2,870 units. In the nine-year period beginning with Q1 2012, the Center City submarket has experienced the greatest introduction of new inventory, 10,901 units, amounting to 29.0% of all new market rate rentals added to the market.

Asking and Effective Rent

During February, asking rents relinquished a portion of January's increase, declining by 0.1% to $1,632. Mean unit prices in the metro are as follows: studios $1,256, one bedrooms $1,422, two bedrooms $1,763, and three bedrooms $2,292. Over the past twelve months, asking rents have increased a total of 12.7%, up from $1,448. Since the beginning of Q1 2012, the metro as a whole has recorded an annual average increase of 4.2%. Effective rents, which exclude the value of concessions offered to prospective tenants, also fell by 0.1% during February. The identical rates of change suggest that, although rents drifted downward, landlords have avoided increasing the relative value of incentives packages used to attract new renters. During the past 12 months, positive movement in asking rent was recorded in all twenty-eight of the metro's submarkets.

Competitive Inventory, Household Formations, Absorption

Net new fourth quarter household formations in the Philadelphia metropolitan area were 3,288. Of course, not all newly formed households immediately become apartment renters, but an analysis of longer-term economic and demographic trends can be useful in understanding the current quarter's level of demand. Since the beginning of Q1 2012, household formations in Philadelphia have averaged 0.5% per year, representing the average annual addition of 9,800 households. During February, net absorption totaled 101 units, while there was no new development; the net effect of absorption and construction dynamics caused the vacancy rate to drift downward by 10 basis points to 4.0%. Over the last 12 months, market absorption totaled 5,153 units, 45.6% greater than the average annual absorption rate of 3,538 units recorded since the beginning of Q1 2012. This vacancy rate matches exactly the metro's long-term average recorded since the beginning of Q1 2012.

Outlook

During 2022 and 2023, 7,148 additional units are projected to be introduced to the metro inventory. Net new household formations at the metro level over the same period are anticipated to average 0.7% annually, enough to facilitate an absorption rate averaging 3,155 units per year. Because this amount does not exceed the forecasted new construction, the market vacancy rate will rise by 20 basis points to finish 2023 at 4.4%. On an annualized basis, asking and effective rents are expected to advance at a rate of 4.3% through year end 2023, reaching average rates of $1,743 and $1,675 per unit, respectively.

Strengths	Weaknesses
Existing members of CU and the relationship his handled as agreed	Personal guarantors appear to be highly leveraged
Experience of personal guarantors as real estate investors	Transactional DSCR is below CU recommended minimum
Good credit scores of personal guarantors	Leases are all considered month-to-month
Good global DSCR, historically and on a pro-forma basis	Inherent risks associated with investment real estate
Analyst Notes	

Recommended Risk Rating	**4-Pass**
Notes on Risk Rating	Additional risk factor was added as risk rating is based on pro-forma cash flow
☐ **Policy Exceptions**	

MBFS Analyst Notes
Borrower is seeking a mortgage secured by a 1st mortgage lien on the fully leased two-story multifamily building with finished basement that contains a total of 6, 1-bedroom, 1-bathroom apartment units located at COLLATERAL ADDRESS. Funds will be used to pay off and close an existing CU LOAN #XXXX, as well as, recapture equity that will be reinvested into future real estate investment projects. The personal guarantors demonstrate good credit scores, personal cash flow and have experience owning investment real estate. The global DSCR is sufficient historically and on a pro-forma basis. Based on the strengths/weaknesses, the analyst agrees with the given risk rating. **The CU should:** • **Obtain account statements for GUARANTOR 2 to verify the remaining personal liquidity positions and ability to support the repayment of debt in the event of cash flow interruptions.**

RISK RATING CALCULATION

	GRADE	WEIGHT	SCORE
TRANSACTIONAL/BORROWER			
Score:	5	25%	1.25
GLOBAL DSCR			
Score:	3	20%	0.60
RATIOS			
Score:	3	10%	0.30
Borrowers with enough global liquidity to cover at least 6 months of all debt service should be considered far above average			
HISTORICAL FINANCIAL PERFORMANCE			
Score:	3	10%	0.30
MANAGEMENT			
Score:	3	10%	0.30
COLLATERAL/TENANT STRENGTH			
Score:	3	15%	0.45
Cash secured loans should receive the highest quality score			
INDIVIDUAL			
Score:	1	10%	0.10
		TOTAL SCORE:	**3.30**
QUALITATIVE ADJUSTMENTS			
	Low Risk	High Risk	Score
Outside Factors	-0.25	+0.25	0.25
Construction Risk	0.00	+0.25	0.00
SBA Loans	-0.25	+0.25	0.00
SCORED RISK RATING:			**3.55**
RISK RATING:			**4**

Scored Risk Rating	Risk Rating	Risk Category
>1.49	1	Excellent
1.50-2.49	2	Good
2.50-3.49	3	Average
3.50-4.49	4	Pass
4.50-5.49	5	Watch
5.50-6.49	6	Special Mention
6.50-7.49	7	Substandard
7.50<	8	Loss

CREDIT UNION LOAN DECISION

Borrower:	**BORROWER**
Loan Amount:	**$514,500**

LOAN CONDITIONS	**CU Accepts**	**CU Waives**	**LOAN CONDITIONS**	**CU Accepts**	**CU Waives**
☒ Appraisal on Real Estate in an amount no less than the estimated values listed			☐ UCC-1 filing on specific collateral		
☒ Title Insurance			☐ UCC-1 against all business assets		
☒ Property search			☐ Vehicle Title		
☒ Environmental Due Diligence			☐ Collateral Insurance		
☒ Flood Search			☐ Subject to SBA Authorization		
☐ Sales Contract on Purchased Property			☐ SEG at Credit Union		
☒ Lease Agreement on Collateral			☒Membership at Credit Union		
☒ Updated Rent Roll on Portfolio			☒ Depository Relationship at Credit Union		
☒ Property Insurance			☒ Annual Tax Ret on all Corporate Guarantors or Borrowers		
☒ Liability Insurance			☒ Annual Tax Ret and PFS on all Individual Guarantors or Borrowers		
☐Accounts Receivable Report			☐ Annual Financial Statements		
☐ UCC-1 Search Indicating ☐ 1st ☐ 2nd lien position			☐ Subject to SBA Authorization		
CU Assigned Risk Rating:					

LOAN DECISION Approve ☐ Decline ☐ Approval Subject to Items Listed Below ☐
CU NOTES ON LOAN DECISION (Strengths, Weaknesses, Conditions, and Consideration of Approval)

SIGNATURE **DATE** **SIGNATURE** **DATE**

SIGNATURE **DATE** **SIGNATURE** **DATE**

BORROWER TREE:

A. **Borrower**-BORROWER
   1. Owner/Guarantor- GUARANTOR 1 (50%)
   2. Owner/Guarantor- GUARANTOR 2 (50%)

Notes: