

Steven J Roy Management—Cambyses Capital

12037 Victory Boulevard PMB 722; North Hollywood CA 91606
[t] (818) 489-4228 — [f] (818) 450-0426 — Steven@StevenRoyManagement.Com

Cambyses Capital
CEO, Chair
Nastaran Motiei MBA

COO, Treasurer
Steven J Roy MST EA

CIO, Secretary
Jason Decker

Advisory Board
Mohammad Reza
Motiei

Preliminary Due Diligence Checklist Commercial Equipment Loan

This Steven Roy Management ***Preliminary Due Diligence Checklist*** outlines the general requirements for a loan submission package for a commercial equipment loan. ***Preliminary Due Diligence Checklists*** for other transactions (including SBA credit line applications) are available on our website or by request.

Each of our ***Checklists*** includes only the information necessary to initiate discussions with a lender or funding source and reach a preliminary consensus on rates and terms (i.e. to get a lending commitment from the lender). The lender or their underwriter may require additional documentation during the underwriting period or at closing. We have anticipated the most obvious of these, but many requirements are specific to the project, your financial situation, or the funding source.

Almost all lenders request (insist) that you fill-out and execute a loan application of their own design (in addition to the documentation noted in our checklist). Those applications, with the exception of applications for SBA funding, are idiosyncratic to the lender. They often seem designed to frustrate your effort to provide accurate descriptions and information (e.g. a box that requests "legal description of the property," but allows you to enter only twenty-four characters). Steven Roy Management recommends that you index/tab the entire document package and reference the documents in the package on the lender's application (e.g. "See Attachment Six," instead of trying to fit the legal description in that tiny box).

We also suggest that you include a prose-narrative summary that explains the need for the loan, the use of the proceeds, and the salient points of each of the documents included in the loan package.

We *strongly recommend against* "cold submissions" (dropping a loan package on the loan officer's desk without benefit of introduction or interaction) and "broadcast submissions" (sending the same loan package to a dozen lenders in the hope someone will give it their attention). Make an appointment, sit with the loan officer, let them see your enthusiasm for the project.

Loan Due Diligence Checklists for common loan transactions are available on our website or by request.

Project information

- Project description: describe the equipment that will be obtained with the funds, and use of equipment in the context of your business. Include
- Photographs (if available), renderings of equipment and its placement within the facility or outbuildings
- Installation strategy, and timing
- Plans for building improvements with detailed list of amenities
- Identify the manufacturer, installer and principal subcontractors and (where possible) provide supporting financial, insurance data and history of parties.
- Copies of agreements executed among parties. (An invoice or contract evidencing an option, purchase offer or ownership.)

EA# 036074, CalBRE License # 01706626, CRD #s 230786 and 6499051

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Borrower's Information

- Legal Name and DBA
- Street address, including zone or zip code, for primary location
- Telephone number and name of primary contact
- Fax number for primary contact
- E-mail s of primary contact
- Primary Borrower's vitae or resume and/or narrative biography.
- **All** other project participant(s) vitae or resumes and/or narrative biography. Include:
 - All persons or entities who will own 20% or more of the interests in the project,
 - Primary operating personnel or contractors, and guarantors
 - Anticipated participation options (if any)

Loan request

- Requested terms,
- Anticipated interest rate,
- Amortization period,
- Anticipated participation options (if any)

Government and Regulatory Information

- Proof and copies of zoning status, variances, conditional use permit(s), and local business permits, as required
- Certificates of occupancy, building, fire, safety, and health inspections
- Itemization of *Ad valorem* property taxes, method of payment, date of payment, and reappraisal date(s)

Financial Data

- Full set (three years or from inception of entity if shorter) of income tax returns for the Primary Borrower, guarantors and participant(s) with 20% or more interest in the project
- Net Worth Statement (Personal Balance Sheet) and supporting detail for each principal who holds a 20% or greater interest in the borrower.
- Full set (three years or from inception of entity if shorter) of financial statements and income tax returns for all entities in which the Primary Borrower, guarantor, other principal(s) have an interest of 20% or more
- Pro forma operating statements for the property.
- Appraisal from lender-approved appraiser, including all comparables and detached schedule of rates charged by competitors
- Detailed cost breakdowns, including:
 - Land acquisition costs
 - Land development costs
 - Demolition costs
- Direct or hard costs (with breakdowns) for excavation, grading, foundation, masonry, steel work, drywall or plastering, HVAC, plumbing, electrical, elevator, and other mechanical items, any special finish-out or fixtures
- Indirect or soft costs, including architects, engineering fees, legal fees, property taxes, interest-construction period, development fees, insurance and bonding fees, estimated contingency reserve, anticipated permanent loan requirements
- Equipment acquisition and installation cost
- Executed agreements, commitments, or letters of intent from clients who will benefit from the installation of the equipment.

Preliminary Due Diligence Checklist Commercial Equipment Loan

Legal Documentation of Entity or Purchaser

- Name and state of formation of the legal entity applying for the loan
- Evidence of incorporation, partnership agreement, certificate of limited liability company, etc. showing state seal
- Copy of by-laws, operating agreement, or similar documents
- Copy of placement memorandum or other securities related documents, if applicable
- Copies of the document (usually filed with the Secretary of State) that identifies the company, its officers or managers, and its agent for service of process. In California, this is the Statement of Domestic Stock Corporation or Limited Liability Company.
- Certificates of qualification for the state of incorporation and all states in which entity operates
- Resolution authorizing acquisition of property and debt
- Resolution or *jurat* authorizing and accepting guarantor responsibilities from all guarantors
- Subordination agreements, if applicable

Lender Application and Agreements

- Borrower's prose narrative
- Lender Application
- SBA Supplementary Application (if applicable)
- Waiver and release to perform credit check and title search

Steven Roy Management Agreements

- Non-disclosure agreement
- Commission/Fee agreement and payment schedule
- Waiver and release to perform credit check and title search