Financing Logging Equipment in a Volatile Market
FRA Northeast Region Forum, February 4, 2016

The markets for wood are changing in Maine in ways not seen in generations. Turmoil (which we have in abundance) brings opportunity, and while some mills close and others reorganize, Maine retains a large number of markets, and they need loggers and landowners to continue to supply them with wood. Join us to discuss:

- how to purchase and finance equipment (new and used) in this rapidly changing environment,
- how to qualify for financing,
- when to use programs that cut the cost of borrowing, and
- how to handle things if you can’t meet your payments.

Speakers:

- Chris Hutchinson, Anderson Equipment
- Matthew Senter, Farm Credit East
- Rob Wilson, CEI 7(a) Financing LLC (a subsidiary of Coastal Enterprises, Inc.)
- Donald J. Mansius, Maine Forest Service (Maine Forestry Direct Link Loan Program)
EQUIPMENT FINANCING OPTIONS

- **Transactional** – includes vendor and point of sale financing.
  - Typically financing on a per item basis.
  - Typically fixed rate financing – some prepayment penalties.
  - Typically no in-person contact between borrower and financing provider.
  - Competes on ease of underwriting and loan pricing.

- **Relationship** – Local/Regional Banks, Credit Unions, Farm Credit, etc.
  - Financing on a per item basis, line of credit, or other loan structure.
  - Fixed and/or variable rates.
  - Typically the borrower has a contact person (loan officer/account officer).
  - Competes on service and loan pricing.
5 C’S OF CREDIT

- Character
- Capital
- Capacity
- Collateral
- Conditions
Factors include repayment history on financing and **credit score**.

- Know your **credit score**.
- Address any issues or errors – [www.annualcreditreport.com](http://www.annualcreditreport.com).
- Be prepared to explain any current or past repayment issues.
- References can be helpful.
Net Worth = Value of Assets minus Amounts Owed.

- Equity % is a key factor to lenders.

Liquidity = Cash and near cash available in the business.

- Liquidity is a “shock absorber” in a business to help fund unforeseen events. *A very key factor if debt is transactional.*
Capacity is the ability to repay debt and invest from earnings/cash flow.

- Cash Flow = The cash revenue of the business available for debt service and capital investment.
- Have historic and projected information available for lenders.
- Prepare budgets – both complete and partial budgets to support financing requests.
COLLATERAL

- **Assets That Secure Loan(s).**
  - **Fair Market Value =** Asset value under normal market conditions.
  - **Net Recovery Value =** Asset value in the event of foreclosure minus costs of collection. Amount of money likely to be realized if the asset was foreclosed upon and sold.
**CONDITIONS**

- **Guidelines of the Lending Relationship.**
  - Term → Loan term should not exceed the useful life of the item financed.
  - Insurance → Typically property coverage and liability coverage.
  - Financial covenants → Used to monitor financial performance of the business.
Balance Risk vs. Returns

- Increased debt vs. increased efficiency & production.

- Factors to consider in budgets for equipment purchases:
  - **Lost Capital** → the reduction in value immediately following purchase.
  - **Depreciation** → the cost of the item spread out over its useful life
  - **Interest** → the cost of financing the item
  - **Repairs** → the anticipated maintenance costs of the item
  - **Taxes** → property taxes, excise taxes, etc.
  - **Insurance** → the cost of insuring the item
TIPS FOR REQUESTING FINANCING

- Know your credit score. Have references available.
- Prepare a Balance Sheet with supporting information.
- Have historic earnings information available.
- Prepare a budget. Support capital spending plans with partial budgets.
- Be realistic about the collateral value – especially with specialized equipment.
TIPS FOR WORKING WITH LENDERS

- Communicate early and often. Work with lenders to make sure they understand industry cycles and upcoming changes.

- **Have a plan** and present that plan in writing.

- Have a **contingency plan** and be realistic with budgets.

- Utilize resources – accountants, consultants, industry organizations, etc. to support requests/proposals.
Finance Authority of Maine (www.famemaine.org).
- Loan Guarantees.
- Direct Lending Programs.

Small Business Administration (www.sba.gov).
- Loan Guarantees and other programs.

Maine Forest Service (www.maine.gov).
- Linked Deposit Program

Coastal Enterprises (www.ceimaine.org).
- Business Counseling.
FRA Maine Forestry Forum
2/4/2016

Rob Wilson

C7a
CEI 7(a) FINANCING LLC
C7a:

• “Small” Business Lender
  • 1 employee though 500 employees

• Providing loan to borrowers who could not obtain loans on reasonable terms elsewhere (i.e. from regular commercial banks)

• Partner with US Small Business Administration (SBA) through its 7(a) loan guarantee program

• One of a handful of non-bank lenders
C7a:

• C7a launched in 2015
• National footprint

• Is a for-profit subsidiary of a non-profit community development organization (Coastal Enterprises Inc. or CEI)

• Mission and Margin
  • Increased access to capital for small businesses to give individuals opportunity and strengthen communities
  • Earn income for our owner
C7a – Small Business Lending Company

+ Origination Partners
  - CDFIs
  - Mission lenders
  - Industry specialists
  - Trade associations

+ banc serv
Overall

• 2,460 business financed ($1.2 B)
• 550 active loans & investments
• 830,000 acres of working and community forest financed
Forest

Echo Renewable Resources LLC
Clinch & Echols Counties, GA

New Forest Fund IV LLC
Aroostook County, ME

Rome Creek Timber LLC
Dillard, OR

LHF Lopiwa LLC
Hawaii Island, HI

AMC Maine Woods II LLC
Piscataquis County, ME

Allegheny Rural NMTC
Forestlands LLC
Eastern & Central, WV

GLS Woodlands Parent LLC
Grand Lake Stream Plantation, ME

Lyme Adirondack Timberlands II, LLC
Adirondack Region, NY

Merriweather LLC
Somerset County, ME

Penobscot Forest LLC

Chateaugay Woodlands LLC
Upstate, NY

AMC Maine Woods Inc.
Piscataquis County, ME
Forest products

- St. Croix Tissue
  Baileyville, ME

- Associated Hardwoods SC
  Cherokee County, SC

- WMATCO, LLC
  Whiteriver, AZ

- DV Timber LLC
  Darlington, SC

- Westervelt Pellets I LLC
  Aliceville, AL

- Berlin Station LLC
  Berlin, NH

- Ochoco Lumber Co.
  John Day, OR
SBA 7(a) Program

• Loans of up to $5 MM to for-profit, operating businesses

• Flexible - equipment, working capital, owner occupied real estate, lease hold improvements, intangibles, etc.

• Benefits to borrower - compared with “regular” bank, can accommodate:
  • Inadequate collateral (< 1:1 coverage)
  • Insufficient profitable operating history (< three years)
    e.g. projection based transactions, recovering / turnaround businesses, growing early stage companies
  • Longer terms required to make numbers “work”
    e.g. up to 10 years on equipment and up to 25 years on real estate

• **Borrowers must cash flow** - minimum required DSC is 1.2x (can be projected, but must be based on sound assumptions)

• Fixed or floating rate (capped by SBA, approximately 6.25% and 7.75% respectively, as of 2/4/2016)

• Loan must be fully amortizing over the term
Financing the Supply Chain – A Forest Industry Solution

Where will the wood come from?

Building and maintaining a supply chain that can support sustained and economic operations is a challenge for many forest industries. Logging capacity – particularly the ability of loggers to finance equipment – is regularly listed as one of the major issues facing both existing and new wood using industries.

C7(a) is a lending institution that works with the Small Business Administration to make debt capital available to operating businesses that are unable to obtain financing under reasonable terms from traditional commercial lenders. In far too many cases, loggers, truckers and others in the forest industry supply chain have challenges receiving traditional financing. As a result, forest industries – and the rural communities they support – face increased economic challenges.

C7(a) has developed a program to work with wood using industries to build their logging infrastructure by using a mill’s credit (coupled with C7(a)’s access to SBA loan guarantees) to enhance the credit of their supply chain – thus allowing loggers and truckers access to capital on terms that are affordable. The program is best suited for loans from $500,000 to several million dollars, and may be particularly useful for firms looking to start up or increase capacity utilizing used equipment.

Using this program, a firm provides a limited guarantee on the amount of a supplier’s loan. The borrower (in this case, the logger) is able to access a loan at a lower rate, and is the party primarily responsible for servicing the loan. As with any loan, the equipment serves as collateral.

In addition to providing credit enhancement, the forest industry is expected to provide a supply contract to the logger (or trucker) for the length of the loan. This contract can take a number of forms, but it is important for C7(a) to know that the supplier will have a market, and for the industry to be assured it will benefit from providing the credit enhancement.

While particularly well suited for the forest industry, C7(a) is willing to explore using this model to support other industries, such as agriculture, where development of the supply chain can support stronger rural economies.
DIRECT LINK LOAN PROGRAM

DEPARTMENT OF AGRICULTURE, CONSERVATION & FORESTRY
Maine Forest Service
Forest Policy & Management Division

04 February 2016
Direct Link Loan Program

- Overview & history
- How it works
- Benefits
- Questions
Direct Link Loan Program
Overview & History

- Modeled after Ohio DNR program; began in 2008
- Uses Clean Water State Revolving Loan Funds to provide low-interest rate financing for Forestry BMPs
- Partnership w/DEP, Maine Municipal Bond Bank, participating banks
Direct Link Loan Program
How it Works

- Provides reduced interest loans for the purchase of equipment to reduce risk of nonpoint source pollution from timber harvesting
- With interest rate subsidy of up to 2%, eligible borrowers may apply for a loan up to a maximum of $800,000.
Direct Link Loan Program
Example

- $250K loan – 60 months
  - @ 4.5% = $4,661
  - @ 2.5% = $4,437
  - Savings over life of loan =

$13,440

(fine print: actual savings will vary)
Direct Link Loan Program
How it Works

- Program eligibility:
  - Maine logger operating in Maine
  - CLP, QLP, or Master Logger
  - Clean enforcement history
Direct Link Loan Program
How it Works

- Participant agrees to:
  - Maintain certification by Master Logger, CLP, or QLP.
  - Maintain on file Northeast Master Logger Harvest Integrity System Form(s).
  - Allow spot checks by MFS.
  - Effective BMP implementation (3 strikes rule).
  - Maintain clean enforcement record (forestry and water quality laws).
  - Keep equipment purchased operating in Maine throughout the term of the loan.
  - Any departures will result in cancellation of the agreement and conversion of the discounted loan to a standard interest rate.
Direct Link Loan Program
How it Works

- Execute agreement w/MFS; request Certificate of Qualification from MFS.
- Certificate of Qualification identifies eligible equipment.
- Apply for loan from participating bank; if qualified, enter into loan agreement.
- Upon approval, DEP and Bond Bank deposit with the bank, through a CD, funds equal to the face value of loan. Term of deposit is equal to loan term, not to exceed 5 years.
- Interest rate on CD discounted below bank’s normal cost of funds. Bank’s repayment schedule in the CD contains annual payments of principal and interest to Bond Bank.
- The interest rate of bank’s loan to applicant is reduced at a discount the bank receives from the Direct Link Loan.
Direct Link Loan Program
How it Works

- Participating banks
  - Farm Credit of Maine
  - Katahdin Trust Company
  - Key Bank
  - Machias Savings Bank
  - TD Banknorth, N.A.
Direct Link Loan Program
How it Works

- During the loan period...
  - Expect visit(s) from MFS to monitor BMP implementation
  - Keep Harvest Integrity System forms on file for all harvests.
  - Maintain clean enforcement record.
  - Keep the equipment in Maine.
Direct Link Loan Program
Loans to Date

- Since 2008:
  - 84 loans
  - $21.4 million
- 2015
  - 23 loans
  - $5.9 million
Direct Link Loan Program
More Information

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Direct Link Loan Program

- Questions?