**Loan Review Credit Memo**

**General Information:**

|  |  |
| --- | --- |
| Date: | 10/20/21 |
| Borrowers: | Brick Street, LLC |
| Guarantors: | Berry Breene |
| Borrower’s Address: | 2041 Veronica St., Pittsburgh, PA 15212 (subject)  2043 Veronica St., Pittsburgh, PA 15212 (residence) |
| County & State: | Allegheny County, PA |
|  |  |
| Borrower’s Tax ID #: | 87-3146903 (Brick Street, LLC)  198-64-7360 (Berry) |
| Phone (Business/Cell): | 814-758-2712 (Berry) |
| Email: | [berrybreene@gmail.com](mailto:berrybreene@gmail.com) |
| Website: | N/A |
|  |  |
| Nature of Business/NAICS: | Residential House Leasing / 531110 |
| Established Date/Start-Up: | Start-Up |
| Agricultural (A), Minority (M), or Woman (W) Owned Business: | 100% Woman-Owned |
| Business Plan Prepared (Y) or (N): | No |
| Census Tract & GPS Coordinates (Latitude, Longitude): | 42 003 2406.00  (40.46907424926758,-79.9810562133789) |
| In CDFI Investment Area (Y or N): | Yes |
| Borrower meets Low Income Target Market Criteria (Y or N): | Yes |
|  |  |
| PA Senate District/Senator**:** | District 42 – Wayne Fontana |
| PA House District/Rep: | District 20 – Emily Kinkead |
| US Congressional District: | District 18 – Mike Doyle |
| Referred by: | Jessica Kruse |
|  |  |
| Existing Exposure: | $0 |
| Proposed Exposure: | $91,470 |

**Project Description**

Berry Breene would like to purchase the single family home next to her current residence to use as a rental property. She is setting up Brick Street, LLC to own and collect rents on the property. She states that the property does need some updates, most of which is the upgrading of the home’s electrical service to meet current safety standards.

**Proposed Loan:**

**Amount Requested**: $ 91,470

Owner’s Equity: $ 10,165

Total Project Cost: $101,635

**Purpose of Loan**: To purchase 2041 Veronica St. to be used as a rental property.

**Interest Rate:** 5.50% fixed for the first 5 years, then adjusting to the 5-year T-Bill rate + 3.75% every five years thereafter. Floor of 4.50%. Ceiling of 6.50%.

**Term:** 15 years

**Amortization:** 15 years

**Estimated Monthly Pmt.**: $747.39

**Repayment Sources:** Primary – Cash flow from subject property

Secondary – Guarantor Support

Tertiary – Liquidation of collateral

**Collateral:** Title insured 1st mortgage on real estate located at 2041 Veronica St., Pittsburgh, PA 15212.

Assignment of rents and leases on real estate located at 2041 Veronica St., Pittsburgh, PA 15212.

UCC filing on all business assets of Brick Street, LLC

**Origination Fee:** 1% of loan amount ($914.70)

**Prepayment Penalty:** 5% of the principal balance if prepaid during years 1-2

3% of the principal balance if prepaid during years 3-4

1% of the principal balance if prepaid during year 5

No prepayment penalty after year 5

**Sources / Uses of Funds:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sources: |  |  | Uses: |  |
| TPF | $91,470 |  | Purchase real estate | $90,000 |
| Owners’ equity – Deposit | $2,000 |  | Electrical Work\* | $10,600 |
| Owners’ equity – Remaining | $8,165 |  | Flooring\* | $1,035 |
| Total | $101,635 |  | Total | $101,635 |

\*Bids attached

**Business Background:**

Brick Street, LLC

* New entity set up to own and collect rents on subject property.
  + The subject is a 3-bedroom, 1.5-bathroom home with 1,212 sq. ft. of living space.
  + Home is heated by an older gas-powered boiler. The home inspection suggests having it inspected and serviced as needed by an HVAC technician. However, the unit currently works as it should.
* Established in August 2021.
* Owned 100% by Berry Breene.

Brick Street, LLC, owned by Berry Breene, would like to purchase the subject property. The sales agreement lists a purchase price of $90,000. Additionally, Berry provided an estimate of $10,600 for electrical work that needs to be done on the house. The work consists of replacing the outdated main fuse panel found in the basement, and old, outdated wiring found throughout the house. According to the electrician, it is necessary to rewire the house to bring it up to current code and safety standards. The scope of this work involves installing a new 200-amp service and rewiring existing devices. Also adding new arc-fault protected circuits and GFCI receptacles throughout the house as needed as code defines.

An additional $1,035 will be used to install flooring in part of the house where tile floors potentially containing asbestos were identified.

The proposed structure would require Berry to inject just over 10% equity into the purchase. Her personal financial statement shows adequate liquidity to cover this cash injection.

Berry did have a home inspection done on the house. While several immediate and future repair items were noted, the report did not show any additional major surprises that would deem the house unsafe. Many of the items noted are typical of older residential homes in the Pittsburgh area.

**Management / Personal Information:**

Berry Breene

* Local artist and real estate investor.
  + Was referred to us by Jessica Kruse.
  + Painted the mural at the entrance of Falls Market in Ohiopyle.
  + Also preforms music through her other business, Her Ladyship Music.
* Owns 50% another rental property with her business partner, Adam Eury.
* Will own 100% of Brick Street, LLC, which will own the subject property.
* Personal financial statement shows liquid assets of $17,721.
* Real estate includes her personal residence, and a 50% ownership stake in the other rental property, located at 1826-1828 Lowrie Street.
  + She owns 50% of this property, and claims 50% of the income from this rental on her tax return. However, she is not listed on the mortgage. Therefore, no liabilities from this property are tied to her personally.
  + Her personal residence includes a garage, which has a one-bedroom apartment above it that Berry rents for $1,100/month.
  + She also rents a room in her house to a tenant for $300/month.
* No liabilities are showing on her personal financial statement. This was discussed with Berry and she confirmed that she has no outstanding debt.
  + She owns her home free and clear.
  + She does not have any auto loans.
  + She does not carry a balance on her credit cards. She pays these off monthly when they are used.
* FICO Score of 820 as of 10/14/21. All debts are showing paid as agreed. A few small credit cards with outstanding balances are showing, but likely paid off every month as explained by Berry.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Liquid  Assets | Real Estate  Equity | Total Assets | Total Liabilities | Net Worth | Annual Income |
| $17,721 | $331,950 | $361,671 | $0 | $361,671 | $6,493 – 2020 PTR |

**Relationship to Mission/Community Development Impact:**

This loan would go to fund the purchase of a rental property located in our CDFI Investment Area. This would support housing in our target market.

**Collateral Description**:

1. Title insured 1st mortgage and assignment of rents on real estate located at 2041 Veronica St., Pittsburgh, PA 15212.
2. UCC filing on all business assets of Brick Street, LLC.

**Collateral Evaluation**

Purchase price of 2041 Veronica St. $ 90,000

Improvements $ 11,635

Total $101,635

Proposed loans: The Progress Fund $ 91,470

LTV based on Gross Value**90%**

**Adjusted:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Collateral | Lien Position | Gross Value | Basis | Adjustment | Net Realizable Value |
| Improved value of 2041 Veronica St. | 1st | $101,635 | Cost | 80% | $81,308 |
| Total | | | $81,308 |
|  | | |  |
| Less: The Progress Fund | | | $91,470 |
| Excess/Deficit | | | ($10,162) |

As stated previously, immediate improvements to the house, which will be funded by this loan will include updating the electrical service and installing some new flooring over older tile flooring that may contain asbestos. The home also shows some evidence of moisture and minor water intrusion in the basement, which could promote mold growth. The upstairs bathroom also shows a leak under the sink that should be repaired. Some exterior walkway and stair deficiencies were also noted as they could pose a potential hazard.

According to Zillow, 4 similar homes have sold in the past year near the subject property, one of which is on the same street. The comparables sales price range is $131,000 - $167,000, putting the purchase price of the subject property far below the range of the comparables. The Zillow estimate of the subject property is $134,400, with the estimated rental rate at $1,295/month. Based on the immediate and future repair items noted in the home inspection, the price appears to be reasonable. A listing of the subject property and comparables can be found here: <https://www.zillow.com/homes/2041-Veronica-Street,-Pittsburgh,-PA_rb/11512083_zpid/>.

**Income Statement and Cash Flow:**

2041 Veronica Street

The projected profit and loss statement projects annual gross rents of $18,000, or $1,500/month. While this seems high, other similar properties are renting at a comparable rate. For example, the 1-bedroom apartment she rents above her garage is rented for $1,100/month, and this unit rarely has vacancy.

Operating expenses are listed at $2,620, and consist of insurance, taxes, and utilities. According to the Allegheny County Property Records, property taxes are $126.55/year.

Based on full occupancy and the projected operating expenses, the subject property can be expected to generate a DSCR of 1.71x. The breakeven analysis shows the property needs to generate gross rents of $11,609/year to cover its expenses and debt service on a 1:1 basis. This would represent an occupancy rate of only 65% annually. At the proposed rental rate, this appears to be achievable.

It should be noted that the operating expenses did not include interest, depreciation, or amortization. Therefore, add-backs were not included for these items.

**2041 Veronica St.**

|  |  |  |
| --- | --- | --- |
|  | Projected | Breakeven |
| Sales | $18,000 | $11,609 |
| COGS | $0 | $0 |
| Gross Profit | $18,000 | $11,609 |
|  |  |  |
| Operating Expenses | $2,640 | $2,640 |
|  |  |  |
| Net Operating Income | $15,360 | $8,969 |
| Debt Service – New Loan | $8,969 | $8,969 |
| Debt Coverage | 1.71x | 1.00x |

**Berry Breene**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2018 | 2019 | 2020 | 2021 – Est. |
| Net Cash Flow | ($588) | $4,714 | $24,356 | $24,077 |
| Personal Debt Service | $1,260 | $1,260 | $1,260 | $1,260 |
| Debt Coverage | (0.47x) | 3.74x | 19.33x | 19.11x |

* Cash flow includes all wage income showing on the personal tax return, rental income showing on the Schedule E, and Schedule C income realized from her work as an artist and as a real estate agent.
  + Unemployment compensation collected in 2020 was not included, as this was collected due to the COVID-19 pandemic and is not expected to be a regular source of income moving forward.
  + 2020 tax return also shows a payout of cash-value life insurance. Since this was a one-time event, it was not counted in the cash flow calculations.
  + Schedule E rentals include the following:
    - Half of income realized (divided equally with 50% partner) on residential rental at 1826-1828 Lowrie St., Pittsburgh, PA 15212.
    - 2042 Liedertafel Way, Pittsburgh, PA 15212. This is the one-bedroom apartment above her garage that is currently leased for $1,100/month.
      * This includes a room she rents in her personal residence for $300/month.
* Tax liability for each year has been deducted from the available cash.
* Debt service consists of three small credit cards. Berry indicates that she pays off her cards monthly. To look at her personal debts conservatively, the minimum payment was used for the three outstanding balances she currently shows on her credit report.
* 2021 estimated income was based on real estate earnings for the year, 2020 Schedule E rental income carried forward, and 2020 tax liability deducted from available cash.

**Global Cash Flow:**

|  |  |  |
| --- | --- | --- |
|  | Estimated | Estimated – breakeven |
| 2041 Veronica Street – Projection | $15,360 | $8,969 |
| Berry Breene – 2021 Estimated | $24,077 | $24,077 |
| Total Business & Personal Cash Flow | $39,437 | $33,046 |
|  |  |  |
| 2041 Veronica Street | $8,969 | $8,969 |
| Berry Breene | $1,260 | $1,260 |
| Total Business & Personal Debt | $10,229 | $10,229 |
|  |  |  |
| Global Debt Service Coverage | 3.85x | 3.23x |

* In addition to the global DSCRs represented in the table above, Berry’s personal income can repay the proposed loan without income from the subject property.
  + 2020 personal cash flow of $24,356 would provide a global DSCR of 2.38x.
  + 2021 estimated personal cash flow of $24,077 would provide a global DSCR of 2.35x.

**Jobs Created/Retained:**

No job creation is expected as a result of this loan.

**Strengths:**

1). The projections appear to be reasonable, and show a strong net profit that can easily repay the proposed loan.

2). The breakeven point of the subject property appears to be easily achievable.

3). The purchase price of the property appears to be reasonable compared to similar properties in the immediate area.

4). Berry has outside income that can help support the loan payment, excellent credit, and very little personal debt.

**Weaknesses:**

1). There is a potential for a slight collateral shortfall in the event of liquidation. This is mitigated by the ability of Berry and the cash flow from the subject property to repay the loan, making foreclosure and liquidation unlikely.

2). There are some noted issues with the house that will need repaired immediately or in the near future. However, the issues noted are not uncommon of older houses in the local market and do not pose a significant safety threat to a tenant.

**Summary/Recommendation**

This loan is an excellent mission fit for The Progress Fund, as the loan would go to fund the purchase of a rental property in our Target Market, supporting housing in the area. The borrower has outside income that can support the loan, and excellent personal credit. Approval is recommended.

Eric Neice

### **Loan Risk Rating**

The recommended risk rating is “3” with a 10 % allocation, based on the borrower being a new customer with a potential for a slight collateral shortfall in the event of liquidation.

Attachments:

Sales agreement

Personal Financial Statement

Credit Report

Projected Profit and Loss statements for 2041 Veronica Street

Home Inspection

Bids for immediate repairs

Comparables

Allegheny County Property Info

Site Photos