

SBA National Bank

SBA Loan Liquidation Plan

SBA National Bank
1234 Any Street
Your Town, TN 37300

Date: January 6, 2013

Borrower: Super Gas Station, LLC. and
Joe Smith, Individually
5678 Somewhere Road
Your Town, TN 37300

SBA Loan No.: 12345678-01

SBA Bank Loan No: 1200000045

Date of Loan Approval: December 01, 2009

Original Loan Amount: \$1,000,000.00

Principal Balance of Loan: \$932,076.32

Date Borrower Last Paid: February 4, 2012 Date Next Payment is due: March 1, 2012

1. Justification for liquidation: Principal, Joe Smith, was diagnosed with terminal cancer and made the decision to close the business.

2. Cause of business breakdown & workout attempts.

SBA National Bank originally approved the above referenced SBA 7(a) loan (Note # 1200000045) to Super Gas Station in amount of \$1,000,000. The current balance of this loan is \$932,076.32. The purpose of the loan was for the construction of a convenience store and for working capital. This loan carries a 90% SBA guaranty. \$992,340.09 was advanced on the loan leaving \$7,659.91 unfunded during the 12 month construction phase. The loan began amortizing in November 2010.

In mid-October 2010 Mr. Smith requested \$15,000 to finish out his equipment purchases (\$5,000) and provide working capital (\$10,000). Since this was beyond what was available on the SBA loan and the loan had begun amortizing, we chose to provide the company a loan outside of the SBA, secured by completely separate assets. Note # 123456789 in the amount of \$15,000 was originally made on October 22, 2010 and was renewed on March 11, 2011 in the amount of \$14,418.35. The balance was \$11,304 upon default. The purpose of the loan was to fund the purchase of scanning equipment at a cost of \$5,000 and \$10,000 for working capital. The loan was secured by a lot at 1200 My Drive, Your Town, Tennessee valued at \$105,000. This property was not part of the collateral securing the SBA guaranteed loan and was sold on May 31, 2012 for \$62,000.

In March of 2011 Mr. Smith contacted Any Body of SBA Bank to explain he was having cash flow problems. Upon review of the simple cash records Mr. Smith provided, it was clear that he was selling the fuel for less than he was paying for it under a fuel contract. He also was selling his retail store items at below suggested retail price provided by the vendors. At the urging of

his advisors, Mr. Smith canceled his fuel contract and re-priced all his store merchandise. Note # 987654321 is a sweep line of credit in the amount of \$50,000 and was made on March 11, 2011. The purpose of the line was working capital to shore-up the business. It is automatically reduced when funds in the business's checking account exceed \$5,000. The line is secured by a second DOT on the lot at 1200 My Drive, Your Town, Tennessee. The balance of this line was \$49,007 upon default. Collateral was liquidated per the above. There were no excess proceeds from the sale (settlement sheet attached).

In May of 2011 Mr. Smith again approached the Bank for additional working capital. Note # 123567321 in the amount of \$35,000 was originally made on May 13, 2011. The balance is currently \$33,150. The purpose of the loan was working capital. The loan is secured by vacant lots in Niceplace and Onn Pointe. Mr. Smith was convinced he could make a go of the operation with the additional funds. The Bank did inform him that this was the last advance and was trying to give him every opportunity for success. At this time, Mr. Smith was convinced that selling only "pure" gasoline would be the key to his success, contrary to advice from advisors and his jobber. There is a dilapidated C-store across the street from this location which sold only "cheap" gas.

On November 8th, 2011 Joe Smith came to the bank and told us that he was closing his convenience store and that he would no longer be able to pay. Please note that this loan was never past due and was not even due for its next payment, when Mr. Smith decided to close the business. He told Mr. Body that his prostate cancer had returned with a very poor prognosis and he was undergoing extensive radiation treatment. He had tried to get his children to run the store but they refused. At this time, Any Body, EVP of SBA National Bank went to the store and inspected the condition of the property and took pictures of the store. He also stressed to Mr. Smith that when he liquidated the inventory all proceeds had to be paid to the SBA loan. Mr. Smith agreed and since that date, there has been \$5,526.54 applied to the SBA loan. All inventories have been liquidated. Also, Any Body has visited the store monthly and inspected the property from the outside to make sure there has not been any vandalism. At this time, the convenience store still appears to be brand new.

In June of 2012 SBA Bank foreclosed on the collateral mentioned in the above conventional referenced loans. Please note that foreclosure on conventional loans was initiated due to the anticipated time it was estimated the real property securing these loans would be held before liquidation. The Bank has allowed the Borrower to "self-liquidate" on the SBA loan because we believe this is the best option to maximize recovery (also due to the nature of the business). Both the primary commercial property and residential property are in the final stages of sale/refinance, given SBA approval. The additional outside commercial RE used to secure this request will be foreclosed upon in 60 days if no activity is noted.

COLLATERAL POSITION REVIEW

Loan # 1200000045 (store loan) is secured by a convenience store located on Somewhere Road in Your Town, vacant land on Fishy Pike, and Mr. Smith's personal residence. The balance on this loan is \$932,076.32. At origination, the value of the collateral for this loan was \$1,390,000

making the LTV 72.00%. Declining values in RE and the poor performance of the C-store will hinder the full recovery of this loan.

ANALYSIS OF TREND

Although payments were being maintained in a reasonable manner, on November 8th 2011, Joe Smith came to the bank and told us that he was closing his convenience store and that he would no longer be able to pay. We have currently foreclosed on all property with the exception of the collateral securing the SBA loan due to our belief that the maximum recovery will come from the Borrower's voluntary liquidation of said collateral.

The store property is being aggressively marketed through Dang Good of Quiet Auctions. **There is currently a sales contract on the convenience store in the amount of \$400,000.** The Fishy Pike property is listed with Tennessee Realty for \$350,000. Mr. Smith has secured a reverse mortgage on his personal residence outlined below. Both the C-store sales contract and reverse mortgage will be accepted with SBA approval.

REPAYMENT SOURCES (INCLUDE DEBT SERVICE COVERAGE)

The repayment source for these loans will be the liquidation of collateral.

INDIVIDUAL (INCLUDE INDIVIDUAL'S LIQUID ASSETS)

Mr. Smith's personal financial statement dated 03/11/2011 shows liquid assets of \$23,440. This was in a checking account at 1st Tennessee. His total assets are \$1,719,940 which is made up primarily of real estate. The total liabilities shown are \$932,076. This is all store related debt. His net worth is \$787,864. It is believed that this is a highly inflated value based on his estimate of RE values.

3. Does the Lender have any "non-SBA" loans with any borrower, guarantor, or principal?

SBA National Bank has funded three additional loans to Super Gas Station:

Note # 123456789

Note # 987654321

Note # 123567321

For further explanation see Page 1. Item 2: Cause of business breakdown and workout attempts.

In April of 2012 SBA Bank foreclosed on the collateral mention in the above referenced loans. Copy of Notes and Deeds of Trust attached.

4. a. Obligors: Super Gas Station, LLC
5678 Somewhere Road
Your Town, TN 37300
EIN #27-123156

Joe G. Smith
1234 Rock Road
Your Town, TN 37300
SS#123-45-6789

b. Guarantor: N/A

c. Life Insurance: Original Life Insurance requirement of \$1,000,000.00 was reduced to \$500,000 by stamp action January 19, 2010 (#573470) and later eliminated in its entirety by stamp action dated February 10, 2010 (#578317).

d. Demand has not been made at this point in time. Borrower is voluntarily liquidating collateral.

5. Will legal action be required? Not at this time.

6. General Recovery Plan: It is the Bank's intention to liquidate all real and personal property used to secure this loan. Personal property was negligible, has been sold and applied to principal (\$5,526.54 between March 12, 2011 and April 21, 2012). The primary commercial property built with the loan proceeds is under contract for \$400,000. We obtained a FMV appraisal dated April 16, 2011 for \$1,000,000 and a liquidation value of \$ 750,000 as of May 28, 2012. However, after aggressively marketing the property for 3 months, we have received offers of as little of \$200,000 to a maximum of \$400,000, this offer being from an existing customer of the Bank. We have accepted this offer (subject to SBA approval) and obtained a Broker Opinion as to the reasonableness of this offer. It is not the replacement value which was ever in question. It is based almost solely on the lack of sales and profitability of the store's operations. The remaining 2 commercial tracts are listed for \$350,000 with a local realtor but have had to date no activity. Mr. Smith has obtained approval for a reverse mortgage on his personal residence for \$160,000, based on an appraised value of \$230,000. We are inclined to accept this payoff (the Bank's appraisal on the same parcel was \$215,000) and release the residence for the principal reduction, given SBA's concurrence. Mr. Smith is in failing health so the disposition of any shortfall in collateral is anticipated to be minimal. Liquidation is anticipated as follows in #7.

7. Estimate of Liquidation Recovery:

	Real Estate Commercial C-store <u>Y.T., TN</u>	Real Estate Commercial Vacant Lots <u>Y.T., TN</u>	Real Estate Residential <u>Y.T., TN</u>
Original Appr. Value	\$1,000,000	\$550,000	\$350,000
Current Appr. Value	\$750,000	\$350,000	\$230,000
Current Liq. Value (Based on):	\$400,000 Purchase Agreement	\$262,500 75% of List Price	\$160,000 Reverse Mortgage
Less Sr. liens:			
1 st : None	\$0	\$0	\$0
2 nd : None	\$0	\$0	\$0
Estimated net value:	\$400,000	\$262,500	\$160,000
Expense Category:			
RE Appraisal:	\$2,000	\$0	\$325
Personal Property:	\$0	\$0	\$0
Environmental:	\$0	\$0	\$0
Past dues taxes:	\$9,475	\$0	\$0
Legal fees:	\$0	\$0	\$0
CPC:	\$0	\$0	\$0
Escrow/Commissions:	\$24,000	\$15,750	\$0
Storage/Pick-up/Etc.	\$0	\$0	\$0
Trustee Foreclosure:	\$0	\$0	\$0
Auction/Sale Expenses:	\$0	\$0	\$0
Other: Def. Maint.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Expenses:	\$35,475	\$15,750	\$325
Projected recovery:	\$364,525	\$246,750	\$159,675

Total projected recovery: \$ 770,950

Note 1: Current liquidation value on CRE (C-store) is based on contract. Liquidation value on residential RE is loan value determined by reverse mortgage based on appraisal value of \$230,000 (much higher than our appraisal in file). Current Liquidation Value of Commercial Lots is 75% of most recent appraisal and broker's opinion.

Note 2: Commission on CRE is 6%.

Any Body, EVP, Chief Credit Officer

Date

