BORROWER EQUITY INJECTION REQUIREMENTS

BORROWER EQUITY INJECTION
At a minimum, CSBDF considers an equity injection from the business applicant of at least 15% of the total project costs necessary for a start-up business to operate on a sound financial basis. CSBDF considers a business to be a start-up if it has been in operation (i.e., generating revenue from intended operations) for less than 2 years. Total project costs are defined as the purchase price of the asset(s), or other financing need, plus working capital, soft costs, loan fees and any other costs associated with the project as a whole. CSBDF requires the following documentation to evidence the sources of the borrower’s equity injection and spending. If the borrower is unable to provide the documentation it cannot be counted towards the required equity injection.

SOURCES OF EQUITY INJECTION
A borrower’s equity may come from several different sources. CSBDF requires certain documentation depending upon the source of the borrower’s equity:

1. Cash (Liquidity)
   Current bank statement showing the available balance and the two months bank statement immediately prior to the current statement. The borrower should provide details and supporting documentation for all deposits of $1,000 or more on the bank statements provided.

2. Gifted Funds
   If any of the deposits were gifts, we need a notarized gift letter from the person/company providing the gift, their current bank statement showing the gift coming out of their possession and the two months bank statements immediately prior to the spending. The borrower should not redact any information on these bank statements.

3. Loans from Non-Traditional Lenders (i.e. family, friends, seller)
   If any of the deposits were loans from non-traditional lenders, we need a copy of the promissory note detailing the repayment terms. As a condition of loan approval, we will prepare a Standby Agreement to be signed by the borrower and the non-traditional lender directing that payments on the non-traditional loan obligation will not be made until CSBDF is paid in full. It is important to note that seller financed debt can only account for 50% of the required equity injection.

4. Loans with Traditional Lenders or 401 K, IRAs or Life Insurance Companies
   Evidence of the obligation (copy of the note or repayment plan) and current statement showing the balance outstanding. Cash that is borrowed through a personal loan to the business owner must be reviewed for repayment coming from a source other than the cash flow of the business (the salary paid to the owner by the business does not qualify).

5. Assets other than Cash
   An appraisal or other valuation by an independent third party is required if the valuation of the fixed asset(s) is greater than the depreciated value (net book value). A valuation of the fixed asset(s) provided as part of a business valuation will not meet these requirements.
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SPENDING OF EQUITY INJECTION

If the borrower’s equity **HAS ALREADY BEEN SPENT** towards the project the borrower should provide the following:

1. Current bank statement showing the purchase(s) made plus the two months bank statements immediately prior to the spending. The borrower should provide details and supporting documentation for all deposits of $1,000 or more on the bank statements provided.
2. Canceled check and the invoice for each item or service that has already been purchased. Generally, the purchase should have been made within 6 months of the project financing request.
3. If credit cards were used, a charge on a credit card **is not** sufficient proof of a "purchase" unless the credit card has been paid down by the amount charged and evidence of the source of the credit card repayment is provided, subject to the conditions and requirements outlined above.

If the borrower’s equity **HAS NOT YET BEEN SPENT** towards the project the borrower should provide the following:

1. Current bank statement showing the available balance and the two months bank statements immediately prior to the current statement. The borrower should provide details and supporting documentation for all deposits of $1,000 or more on the bank statements provided.
2. Certified Check in the amount of the total cash equity requirement for the project is required from the borrower at closing. The check should be written to Carolina Small Business Development Fund. CSBDF will escrow the funds to be disbursed during the project. The borrower’s cash equity injection will be disbursed fully before any disbursements from loan funds.

DISALLOWED EQUITY INJECTION SOURCES

CSBDF **WILL NOT** accept any of the following as equity injection from the borrower:

- Broker Fees
- Value or cost of education
- Owner’s salary
- Borrowed funds not meeting the criteria summarized above
- Credit card purchases not meeting the criteria summarized above
- Receipts under $50 except for certain fees related to business permits or licenses
- Automobile repairs or maintenance unless such repairs and maintenance are directly related to business equipment/machinery that is part of the project being financed
- Fuel expenses unless such fuel expenses are directly related to business equipment/machinery that is part of the project being financed
- Meals
- Hotel/Motel expenses
- Transportation
- Parking Fees
- Clothing unless such clothing (i.e. uniforms) are directly related to the project being financed
- Any submission from the Borrower where it cannot be proven that the expense is for the project being financed