

**PROPOSAL LETTER**  
**August 9, 2022**

John McDonald  
14428 Willscott Drive  
Tyler, TX 75703

RE: Start-up Grease Monkey – Desoto, TX

Dear Mr. McDonald,

Thank you for your interest in Live Oak Bank's small business loan programs. Live Oak Bank ("Live Oak") is pleased to provide you a proposal to extend credit under the U. S. Small Business Administration's ("SBA") 7(a) loan program. This proposal is for discussion purposes only and should not be construed as a commitment to lend. A commitment may be made, but only after the completion of Live Oak's underwriting process, formal loan approval by Live Oak, and any contingencies thereto. Capitalized terms used but not defined herein shall have the meaning ascribed to such terms in future correspondence and/or loan documentation.

**Loan Purpose:** Provide permanent financing for the purchase of commercial real estate, construction, equipment, working capital, and finance defined soft costs and closing costs.

**Borrower:** Entity to be determined

**Guarantors:** John McDonald

**Note on Personal Guarantees:** Any 20% or more owner of the borrowing entity will be required to provide a full joint and several personal guaranty. Additional guarantors may be required by Live Oak as part of the underwriting process.

**Loan Amount:** Not to exceed \$900,000. The loan will be a Live Oak Bank, SBA 7(a) multi-advancing construction loan. Live Oak Bank is an SBA preferred lender, so we approve, close, and disburse all loans in-house. Given that this is a construction loan, please refer to the last pages of this document for Construction Overview and Requirements.

**Use of Proceeds:** See below breakdown for use of proceeds. Allocations within the loan, as well as amount of equity injection, are subject to change.

Use of Proceeds			
Use of Proceeds	Borrower	Loan #1 7(a) PLP	Total
Commercial Real Estate	\$100,000	\$100,000	\$200,000
Building & Signage	\$0	\$282,000	\$282,000
Plans & Permits - Estimated	\$0	\$5,640	\$5,640
Arch & Eng - Estimated	\$0	\$28,200	\$28,200
Construction Contingency	\$0	\$28,200	\$28,200
Supervision Fee	\$0	\$10,200	\$10,200
Interest Reserve	\$0	\$70,848	\$70,848
Inventory	\$0	\$25,000	\$25,000
Equipment / Computer POS	\$0	\$215,000	\$215,000
Appraisal - Commercial	\$0	\$5,000	\$5,000
Appraisal - Residential	\$0	\$800	\$800
Environmental	\$0	\$1,600	\$1,600
Legal Fee	\$0	\$7,500	\$7,500
Title	\$0	\$6,000	\$6,000
Survey, UCC Searches	\$0	\$3,500	\$3,500
Franchise Fee	\$39,900	\$0	\$39,900
Guaranty Fee	\$0	\$22,073	\$22,073
Soft Costs	\$0	\$750	\$750
Working Capital	\$0	\$87,689	\$87,689
<b>Total Loan Amount</b>	<b>\$139,900</b>	<b>\$900,000</b>	<b>\$1,039,900</b>

**Borrower's Equity**

**Contribution:**

\$139,900 please refer to the above use of proceeds for allocation. Equity injection is subject to change if the purchase price exceeds what was originally presented for the purpose of this proposal letter.

Borrower equity to be from non-borrowed funds unless previously disclosed and approved by Live Oak. Source of equity injection will be verified and documented prior to close.

**Repayment:**

12 Months of Interest Only payments followed by 300 of regular monthly payments. The loan will mature 26 years from the closing date of the note. All SBA loans are fully amortizing—no balloon payments.

**Interest Rate:**

Wall Street Journal Prime Rate + 2% (currently 7.75%), adjusting every calendar quarter at the same index. Interest will be calculated on a 365-day basis. Monthly payment based on today's rate: \$6,650.92.

**SBA Fee:**

\$22,073

**Prepayment  
Penalty:**

The SBA collects a prepayment fee on loans with a maturity of 15 years or more if the prepayment is 25% or more of the outstanding principal balance in any calendar year within the first three years after first disbursement of the loan. The Bank does not share in this fee. If the borrower elects to prepay this Note within:

- 1 year, a 5% prepayment will be charged
- 2 years, a 3% prepayment will be charged
- 3 years, a 1% prepayment will be charged

**Collateral:**

LOB will have a collateral position in the following:

- 1) 1st UCC filing on all business assets and personal property
- 2) 1st Deed of Trust / Mortgage on Commercial Real Estate (Subject Location)

SBA regulations require that, to the extent that the liquidation value of the assets of the proposed borrower are less than the proposed loan amount, additional outside collateral of the guarantors be considered as collateral for the SBA loan. **The additional collateral may include liens on personal residences and real estate investment properties when the equity in the property is greater than 25%.**

**Conditions of  
Proposal:**

1. Full underwriting and approval by internal LOB team
2. Satisfactory site visit
3. Receipt and review of final LOI and Purchase Agreement
4. Receipt and review of contractor provided construction estimates

**Life Insurance:**

Life insurance will be required for the portion of the loan amount that is not covered by the liquidated value of any real estate taken as collateral (This may be adjusted up or down depending on appraised value of real estate). Any existing policies may be utilized to meet this requirement by assigning the proceeds to Live Oak Bank.

**This proposal is for discussion purposes only. This letter is not intended to be all-inclusive but serve as a basis for working towards a mutually acceptable agreement. Loan approval and funding would be subject, but not limited, to the following conditions, all of which must be acceptable to Live Oak in Live Oak's sole judgement:**

Final Loan Approval

- 1) Formal approval by Live Oak.
- 2) Any and all other items as may be required by Live Oak to complete Live Oak's required underwriting for the proposed credit accommodation.
- 3) If this is a construction loan, please see back of this proposal letter for construction-specific information and requirements.

## Prior To Disbursement


- 1) Due to the complexity of commercial loan transactions and government guidelines, the Bank encourages borrowers and guarantors (collectively, "Borrowers") to seek the assistance of a qualified attorney ("Borrower's Counsel") to assist Borrowers in the creation of transactional and organizational documents, as well as the review of loan documents prior to closing. Generally, the presence of Borrower's Counsel enhances the speed and efficiency of a loan closing and undeniably provides a trusted legal resource for Borrowers prior to closing.
- 2) **Outstanding PPP Loans:** Under current guidance, a paycheck protection program ("PPP") loan borrower must notify their PPP lender in writing prior to the closing of any covered change in ownership, sale of assets, or merger. These actions may require prior approval by the U.S. Small Business Administration ("SBA"). Borrower acknowledges that an outstanding PPP loan may impact the timing of its transaction, including the closing date. Bank cannot guarantee, and is neither responsible nor liable for, SBA guidance, SBA approval, subsequent PPP loan documentation, or any delays associated therewith. Borrower specifically acknowledges the burden imposed by an outstanding PPP loan and shall use its best efforts to address such loan with any seller, the SBA, or other third party as soon as practicable and consistent with other terms contained herein.
- 3) **Business Valuation:** Live Oak Bank will order a third-party business valuation during closing to ensure that the purchase price for the business is reasonable, and that SBA dollars going toward the purchase do not exceed the valuation. Cost of this report is included in loan proceeds.
- 4) Completion of satisfactory site inspection by personnel or authorized representative of Live Oak Bank.
- 5) Verification and documentation of Borrower's required equity injection, as well as review and approval of seller standby note if applicable.
- 6) **Real Estate Appraisal:** An appraisal is to be performed on the mortgaged property. The appraisal(s) will be reviewed and must be approved by LOB and any participating lending institution. Any costs for the appraisal(s) will be paid prior to or at closing by the borrower or included in loan proceeds.
- 7) Receipt and satisfactory review of Environmental Questionnaire completed by seller.
- 8) Evidence indicating that the real property acting as collateral for the loans is free of contamination from all hazardous substances, toxic substances, or hazardous waste as defined by any federal, state, or local law, statute, ordinance, or regulation, and is free of all other contamination that, even if not so regulated is known to pose a hazard to the health of any person on or about the real property, and contains no underground storage tanks. Live Oak reserves the right, at Borrower's expense, to retain an independent consultant to review any such evidence submitted by Borrower or to conduct its own investigation of the real property. All such evidence must be acceptable to Live Oak in Live Oak's sole judgement.
- 9) A current survey in form acceptable to title company.
- 10) All construction requirements need to be met prior to loan closing. Refer to Exhibit A – Construction Requirements.
- 11) Satisfactory insurance listed as follows: title, hazard, business personal property, general liability, workers' compensation and if required, flood insurance.

**Proposed Borrower(s) and Proposed Guarantor(s) Acknowledgment and Authorization**

The proposed terms and conditions contained in this letter have been reviewed and accepted by the undersigned.

Proposed Borrowers and proposed Guarantors hereby direct Live Oak to proceed with evaluation and due diligence to be undertaken in the loan approval process. Proposed Borrowers and proposed Guarantors authorize Live Oak to conduct such investigations and inquiries as may be necessary or desirable (in the sole and absolute discretion of Live Oak) in connection with the consideration of your application. In addition, the undersigned authorizes Live Oak to share any and all information relating to this application with the SBA and/or potential financial partners of Live Oak.

Guarantor 1:

  
\_\_\_\_\_  
President/CEO  
\_\_\_\_\_  
8/10/22  
\_\_\_\_\_

Signature:

Title:

Date: