Business Loan Periodic Review

Date:	**March 5th, 2019**		
Credit Union:	**Fox Credit Union**		
Borrower Information			
Borrower:	Loan #37: Alex & Casey Logan as co-borrowers Loan #61: Logan Holdings, LLC		
Address:	5855 East McKeesport Turnpike Road, East McKeesport, PA 19328		
NAICS:	Logan Holdings, LLC: 531120 – Lessors of non-residential real estate Pinnacle, Incorporated: 811121 – Automotive body, paint, & interior repair		
Loan Information			
Loan Balance:	Loan #37: $143,335 Loan #61: $370,791	**Original Loan Amount:**	Loan #37: $175,000 Loan #61: $420,000
Term:	Loan #37: 15 years Loan #61: 15 years	**Amortization:**	Loan #37: 20 years Loan #61: 20 years
Rate:	Loan #37: 4.50% Loan #61: 5.00%	**Full Loan Number:**	Loan #37: 1007-000037 Loan #61: 1007-000061
Loan Analysis			
Total Collateral Value:	Loan #37: $234,000 Loan #61: $560,000	**LTV:**	Loan #37: 61.25% Loan #61: 66.21%
Transactional DSCR:	See global figures	**Global DSCR:**	2.38x
Transactional Margin:	See global figures	**Global Margin:**	$110,172
Transactional Liquidity:	See global figures	**Global Liquidity**	$33,203
Transactional NW:	See global figures	**Global NW:**	$767,532
Risk Rating Score:	2.90	**Risk Rating:**	4 – Pass
Individual Guarantor(s) Information			
Guarantor:	Alex & Casey Logan		
Address:	5855 East McKeesport Turnpike Rd., East McKeesport, PA 19328		
CBR Score:	Alex: 804 Casey: 729	**Ownership %:**	100.00%
Guarantor DSCR:	0.75x	**Guarantor Cash Margin:**	($11,474)
Corporate Guarantor:	Pinnacle, Inc.		
Address:	525 High Street, East McKeesport, PA		
CBR Score:	N/A	**Ownership %:**	N/A
Guarantor DSCR:	No ADSR (See notes)	**Guarantor Cash Margin:**	No ADSR (See notes)
Policy			
Underwritten to Board of Directors' Approved Commercial/MBL Loan Policy dated:			6/25/2019

Associated Borrower Analysis (§723.4)

Borrower/Assoc Borrower	Loan #	Loan Amount	Loan Balance	Unfunded Commits	Particip. Portion	Balance Outstanding	Maturity Date	Risk Rating
Logan Holdings, LLC	61	$420,000	$370,791			**$370,791**	2030	4
Alex & Casey Logan	37	$175,000	$143,335			**$143,335**	2030	4
						$0		
						$0		
						$0		
						$0		
Totals		**$595,000**	**$514,126**	**$0**	**$0**	**$514,126**		
CU Net Worth 12/31/2018:	**10,273,158**	CU net worth derived from latest NCUA reported Financial Performance Report.						
Assoc. Borrower % of NW	**5.00%**							

Deposit Relationship

Account Name	Account #	Balance	Account Type
Logan Holdings, LLC	97423-S4	$95	Unknown
Logan Holdings, LLC	97423-S42	$4,946	Unknown
Casey Logan	9784-S2	$636	Unknown
Casey Logan	9784-S31	$16,257	Unknown
Total		**$21,934**	

Borrower, Loan and Repayment Status

Borrower History

Logan Holdings, LLC is managed and operated by individual guarantor, Alex Logan. Mr. Logan opened his first auto service center in 1979. Pinnacle, Inc. (PI) has been in business since 2000. The operating entity in the subject transaction is Pinnacle taking part in a pocket-to-pocket lease with the holding company, Logan Holdings, LLC. Cash flow considerations are therefore best reviewed in a global capacity with emphasis on PI as the primary generator of cash flow or operating entity.

Logan Holdings is a Limited Liability Corporation created 7/5/2013. A search of the PA Secretary of State website reports the entity is active and in good standing as of 3/4/2019. According to the 2017 FTR K-1 schedules the entity is owned by Alex Logan (30%), Casey Logan (30%), James Logan (20%), and Theresa Logan (20%), which has not changed since the loans originated.

Pinnacle is an S-Corporation created 1/12/2012. A search of the PA Secretary of State website reports the entity is active and in good standing as of 3/4/2019. The entity is owned by Alex Logan (50%), Casey Logan (30%) and Theresa Logan (20%).

Subject Loan(s)

The subject relationship has two loans currently under periodic review.

Loan #37 was a term loan in the original amount of $175,000 granted in 2013 as a cash-out refinance. Alex and Casey Logan were individual co-borrowers on this loan with PI serving to guarantee the loan in a corporate capacity.

Loan #61 was a term loan in the original amount of $420,000 granted in 2015 for the refinance of a then privately held mortgage on the commercial property located at 525 East High Street, East McKeesport, PA. Logan Holdings, LLC was the only borrower on this loan with PI serving to guarantee the loan in a corporate capacity and Alex and Casey Logan providing their personal, individual guarantees.

The lender provided loan repayment information for review, which indicated all loan payments relating to both outstanding loans have been made on time and in full throughout the calendar year of 2018. As of this review, all loan payments (to the best of the reviewer's knowledge) are current.

Financial Analysis

Statement Dates			
Pinnacle, Inc.	12/31/15	12/31/16	12/31/17
Logan Holdings, LLC	12/31/15	12/31/16	12/31/17
Alex & Casey Logan	12/31/15	12/31/16	12/31/17
Source	FTR	FTR	FTR
Cash Available for Debt Service			
Pinnacle, Inc.	(1,974)	(93,557)	115,682
Logan Holdings, LLC	26,234	43,690	39,226
Alex & Casey Logan	24,896	55,567	35,119
Global	**49,156**	**5,700**	**190,027**
Debt Service Requirements			
Pinnacle, Inc.	-	-	-
Logan Holdings, LLC	33,262	33,262	33,262
Alex & Casey Logan	46,593	46,593	46,593
Global	**79,855**	**79,855**	**79,855**
Cash Margin			
Pinnacle, Inc.	(1,974)	(93,557)	115,682
Logan Holdings, LLC	(7,028)	10,428	5,964
Alex & Casey Logan	(21,697)	8,974	(11,474)
Global	**(30,699)**	**(74,155)**	**110,172**
***Debt Service Coverage Ratio**			
Pinnacle, Inc.			
Logan Holdings, LLC	0.79	1.31	1.18
Alex & Casey Logan	0.53	1.19	0.75
****Global**	**0.62**	**0.07**	**2.38**

Reviewer's Notes:

1) UCA cash flow was utilized to calculate cash flow for Pinnacle, Inc. because it operates with working capital accounts.
2) Calculating cash flow for 2018 was not possible at this time because FTRs for Logan Holdings, LLC; Pinnacle, Inc.; and the Logans personally were not available for review. Pinnacle provided a set of company-prepared financial statements that are discussed in sections to follow.

****Transactional Debt Service Coverage Ratio (DSCR) measures the number of times the cash available for debt service (CADS), provided by the borrowing operating entity or rental income producing property, covers the Debt Service Repayment (DSR) requirements associated with the requested loan.***

*****Global Debt Service Coverage Ratio (DSCR) measures the number of times the cash available for debt service (CADS), provided by the borrowing operating entity or rental income producing property, obligated guarantor(s) and other materially related entities/individuals covers the Debt Service Repayment (DSR)***

requirements associated with the requested loan and all DSR requirements of the borrowing operating entity or rental income producing property, obligated guarantor(s) and other materially related entities/individuals.

Logan Holdings, LLC

<u>Logan Holdings, LLC Cash Flow Analysis</u>

2018 yearend profit and loss and balance sheet information was not available for review for Logan Holdings, LLC.

Cash flow in support of borrower debt service is derived entirely from contract rents between PI and Logan Holdings as the RE holding company and in turn, these contract rents are derived entirely by cash flow from operations of PI. As previously stated, the subject relationship is a pocket-to-pocket lease structure with PI acting as an owner-occupied business/operating entity.

Transactional cash flow of Logan Holdings applies only to Loan #61 from a technical perspective, yielding acceptable transactional DSCR figures in the past two years at 1.31x (2016) and 1.18x (2017).

As can be seen in the table below, gross rents have fluctuated year over year with the only consistency being increasing gross rents from 2014 to 2016. The impetus for the drop in gross rents from 2016 to 2017 of approximately $7,250 is not provided. Known gross rents for 2018 will be at least $62,400 since this is the amount paid in rental expense by owner-occupant tenant PI during that year based on the PI 2018 profit and loss statement in file, but as previously stated, full Logan Holdings 2018 profit and loss statements were not available for review. Borrower (subject property) operating expenses were consistent with historical values. As the single asset RE holding company in the transaction, unless there are capital expenditures in any given year, operating expenses should remain consistent.

Logan Holdings distributed no cash to owners in any of the years reviewed.

Previous FYE Statement:	Add	12/31/2014	12/31/2015	12/31/2016
Statement Date	**12/31/2014**	**12/31/2015**	**12/31/2016**	**12/31/2017**
% of Year	**100 %**	**100 %**	**100 %**	**100 %**
Analyst		CD	CH	BWB
Statement Type	FTR	FTR	FTR	FTR
Accounting Firm				
2 Gross rents	50,400	59,650	75,700	68,450
Gross Rental Income	50,400	59,650	75,700	68,450
3 Advertising				
4 Auto and travel				
5 Ckeaning and Maintenance				
6 Commissions				
7 Insurance	3,942	3,900	4,014	4,014
8 Legal/professional	1,080	1,145	1,205	
9 Interest	22,854	25,242	28,045	27,381
10 Repairs	80	3,121	1,721	228
11 Taxes	18,281	24,740	24,560	24,513
12 Utilities		160	510	469
13 Wages and salaries				
14 Depreciation	13,063	19,643	13,690	13,690
15 Other fixed expense		360		
15 Other variable expense	230	-10		
16 Total expenses	59,530	78,301	73,745	70,295
17 Income (loss)	-9,130	-18,651	1,955	-1,845

Borrower CADS varied little over the past two years.

Debt Service

Annual debt service requirements of the borrower have not changed. Loan #61 requires ADSR of $33,262 with no other debts detailed by the borrower. Of interest however is the total amount of long-term mortgage debt reported by Logan Holdings, LLC per the 2015, 2016, and 2017 FTRs. When reviewing historical balances, it appears as though Logan Holdings is reporting both of the Fox long-term debts with their 1120S FTR Schedule L rather than only the balance of Loan #61. Long-term payables per the borrower's FTRS were stated to be $574,490 in 2015, $558,194 in 2016 and $555,339 in 2017. As of yearend 2018, the aggregate outstanding balance of both loan with Fox was $514,126. If Logan Holdings _is not_ claiming the additional Fox loan #37 on its business FTR, this would be an indication that the borrower has another outstanding loan in the approximate amount of $100,000 to $150,000 for which there is no debt service information. The loan file indicates multiple instances of corporate debt schedules over the years that *do not* discuss further annual debt service requirements above any beyond those already known. With that stated, it is most certainly worth verifying with the borrower, since the tax documents appear to cite this notable variance.

Logan Holdings, LLC Balance Sheet Summary

Date	Liquid Assets	Total Assets	Total Liabilities	Net Worth
12/31/2016	$15,012	$391,573	$558,194	($166,621)
12/31/2017	$5,134	$386,873	$555,339	($168,466)
% Change	-65.80%	-1.20%	-0.51%	1.11%
Cash Change	($9,878)	($4,700)	($2,855)	($1,845)

Changes in assets from yearend 2016 to yearend 2017 were minimal from both cash and percentage change perspectives. The largest change came in the cash category. This change in cash is nominal as it relates to the borrower's operations however as Logan Holdings acts as the RE holding company in the subject transaction and as a RE holding company is not expected to operate with considerable cash balances at any time during the year. Other notable changes are Loans to Shareholders which have increased from $4,289 in 2016 to $23,157 in 2017. (2018 Loans to Shareholders figures are unknown.)

Overall, the borrower's equity position appears deficient on paper at this time (and historically) due to the stated value of the assets owned, which reflects the purchase price of the underlying assets rather than the appraised value of them. Appraised values of the fixed assets securing both loans per the most recent appraisals in file totaled $734,000. As a result, the borrower's equity position would likely be positive in a situation where asset liquidation would be necessary, since actual asset values exceed known outstanding liabilities.

Pinnacle, Inc.

PI, Inc. Cash Flow Analysis

PI provided 2017 FTRs and a company-prepared 2018 yearend profit and loss statement for review.

Gross sales from 2017 to 2018 increased from $735,602 to $882,840. Sales in 2018 were the highest reported in the past six years. COGS were $447,082 in 2017 and decreased considerably as of yearend 2018 to $339,609 for a net variance of ($107,473). Because of the increased sales and decreased COGS, operating income in 2017 versus 2018 saw considerable improvement; operating income 2017 was $288,520 while operating income in 2018 was $543,231 – a variance of +$254,981 year over year.

Operating expenses increased from 2017 to 2018 from $300,608 to $489,821, though it should be noted that the majority of this increase came from one expense category – officer compensation/wages and salaries paid. Officer compensation was expensed at $61,280 in 2017 and the borrower-prepared P&L reported "Net Pay" to be $197,100 during 2018. This "Net Pay" figure has no further explanation, but there are no other line items on the borrower-prepared statement that would indicate any type of salary or wage expenses other than this line item. As a result, it is assumed that "Net Pay" is at least in part tied to salaries/wages paid in 2018. This expense figure indicates that the overall increase in income has a direct correlation with increasing wages paid; possibly the hiring of additional employees.

PI is impacted by working capital accounts. Net cash flow after operations was $115,682 at yearend 2017, which was a vast increase from the year prior at ($93,557.) 2018 UCA cash flow should not be considered accurate at this time as there are material issues with the borrower-prepared 12/31/2018 balance sheet provided, specifically relating to accounts payable. Furthermore, it is suggested that PI provide Accounts Receivable and Payable aging reports for review going forward. At yearend 2016, PI reported accounts receivable in the amount of $74,946. Two years later at yearend 2018, this accounts receivable figure is exactly the same amount at $74,946. At yearend 2017, accounts receivable fell to $9,871. While the 2016 and 2018 mirroring could simply be a coincidence, it is more likely that the company-prepared balance sheet for yearend 2018 was mistaken.

Debt Service

Per the company-prepared balance sheet, it appears as though PI has only the following liabilities requiring *mandatory* annual debt servicing; one loan with Chase, which is identified by management as 'long-term' with an outstanding balance of $10,182 and one line of credit with Harleysville with an outstanding balance of $17,859. PI did not provide annual debt service information for either debt. Though the debt service requirements of these debts are likely not excessive, this must be considered a material deficiency in the information provided by the operating entity as it will have an impact on global cash flow – which is the most important metric by which the subject loan relationships are measured.

PI distributed no cash to the owners in 2015, 2016, or 2017. It is unknown what, if any, distributions were made during 2018.

PI, Inc. Balance Sheet Summary

Date	Liquid Assets	Total Assets	Total Liabilities	Net Worth
12/31/2016	$8,861	$141,316	$421,046	($279,730)
12/31/2017	$3,069	$63,341	$335,959	($272,618)
% Change	-65.37%	-55.18%	-20.21%	-2.54%
Cash Change	($5,792)	($77,975)	($85,087)	$7,112

The updated figures in the table above were provided by PI 2017 FTRs. PI provided a borrower-prepared balance sheet for yearend 2018 as well, though PI's yearend 2018 liabilities and overall equity position cannot be determined at this time utilizing that statement. The company-prepared balance sheet has handwritten liability figures that have been voided by management on the statement after the totals were generated on a spreadsheet. These handwritten changes alter the liability categories and overall equity totals of the 2018 yearend summary by creating an unexplained variance. Furthermore, the liability section of the borrower-prepared statement does not appear to be accurately calculated as there are negative and positive liability figures detailed for vendors in the past that appear to owe the borrower refunds which are being counted as negative liabilities (possibly credits that are unlikely to be collected.) It is suggested that management provide updated balance sheet information for PI that has been reviewed by a CPA or tax professional to avoid future confusion.

Of the liabilities that can be discerned with a high degree of accuracy, PI's largest outstanding balance is currently due to shareholders in the amount of $276,271. This figure was reported to be $177,577 in 2015, $320,645 in 2016 and $166,730 in 2017. The shareholder debt repayment schedule is unknown.

PI should not be considered a strong contributor of capital support to the global relationship.

Alex & Casey Logan

Alex & Casey Logan Cash Flow Analysis

Personal income generated from the Logans continues to come from W2 wages, which were reported to be $33,552 in 2016 and $37,173 in 2017. Additional income in 2016 and 2017 was derived from minor unemployment compensation of $5,000 in 2016 and $1,300 in 2017. In 2016, non-taxable pension income of $59,290 was reported in what appears to be a one-time distribution since no pension income was reported in 2017. Per the PTRs of the guarantors, Casey Logan is retired and has been since at least 2016. The 2017 Periodic review did not include this pension income. The current 2018 analysis has calculated this pension income in the guarantors' calculation of personal cash flow though. During 2017 and for the first time recorded, Alex Logan received officer compensation from PI of $28,160. Based on the strong year of earnings reported by PI in 2018, it is again expected that Mr. Logan will receive officer compensation from PI in 2018, though this is not verified at this time. This additional officer compensation would serve to increase 2018 personal cash flow considerably over previous years.

Personal debt service has decreased from $47,731 to $46,593. (This figure includes annual debt service of Loan #37.)

Overall, personal CADS has fluctuated year over year. CADS was $24,896 in 2015, $55,567 in 2016, and $35,119 in 2017 after adjustments were made to current and historical figures accounting for previously omitted personal income and income tax/living expense figures. Personal cash flow figures should not be considered strong in any year reviewed. This risk is mitigated by the necessity to hold global cash flow as the ultimate measure of relationship repayment capacity. Additional risk mitigation may also be found in the record year of profits generated by the operating entity during 2018 that will be available for official review in the coming months in both corporate and personal capacities.

Alex & Casey Logan PFS Summary

The guarantor files a joint tax return. Jointly held assets with a spouse who is not a party to this transaction may materially impact capital capacity.

DFTC, Inc. has adjusted the PFS to report closely held business assets net of closely held business liabilities. These closely held business liabilities are reported as contingent liabilities. Additional adjustments may be made to reflect asset and liability values per third party statements and credit bureaus.

Date	Liquid Assets	Total Assets	Adjusted Net Worth	Contingent Liabilities
11/10/2017	$15,000	$967,000	$548,151	Not previously calculated
1/24/2019	$25,000	$1,610,000	$1,208,616	$370,791
% Change	66.67%	66.49%	120.49%	N/A
Cash Change	$10,000	$643,000	$660,465	N/A

Cash was the only asset total from the table above that has been validated by third-party statements. All other values were provided by the Logans based on the PFS in file. The most notable difference seen in the table above is the decrease in personal assets from 2017 to the beginning of 2019 across approximately 14 months. This decrease is due to multiple factors: the borrower-stated value of 346 Jefferson Avenue was $200,000 as opposed to the historical value of $234,000, and "other non-current assets" decreased from $325,000 to $220,000. There are no further details describing the composition of "other non-current assets." The reviewer also excluded business assets in the amount of $750,000 tied to Logan Holdings that were reported by the guarantors because these assets are reported in part by Logan Holdings in a global capacity already, and they lack overall validation.

As of yearend 2018, the equitable position (if validated) of the Logans appears adequate at this time though liquidity as a percentage of annual debt service payments is only approximately 0.5:1 ratio. The overall adjusted debt to assets ratio of the Logan's is 0.88:1.00 as of January 2019.

Contingent liabilities are simply the outstanding balance of Loan #61. Other contingent liabilities may be present stemming from short-term debt of PI, but these figures require verification due to the noted inaccuracies of the borrower-prepared 2018 balance sheet.

Guarantor(s) Credit Report Summary

Name	Date	Average Score	30/60/90	Derogatories Noted
Alex Logan	12/1/2018	811	0/0/0	None noted
Alex Logan	1/24/2019	804	0/0/0	None noted
Casey Logan	12/1/2018	766	0/0/12	See notes
Casey Logan	1/24/2019	729	0/0/12	See notes

Casey Logan reports delinquency issues on three student loans that were last active in 2013 which were all over 90 days past due at the same time during this time period. These delinquent loans were transferred to another lender, which appears to be servicing them at this time, as three student loans are still currently active on her 2019 CBR. All three of these student loans have current balances that exceed their credit limits, leading the reviewer to believe that the historical delinquency increased the balances owed on all loans. As of the most recent CBR, these loans are current and have been for at least the last two years.

Collateral

	Prior	Current
Collateral Type:	**Loan #37: CRE** **Loan #61: CRE**	**Loan #37: Unchanged** **Loan #61: Unchanged**
Lien & Position:	**Loan #37: First Lien Mortgage** **Loan #61: First Lien Mortgage**	**Loan #37: Unchanged** **Loan #61: Unchanged**
NOI:	**Loan #37: N/A** **Loan #61: N/A**	**Loan #37: N/A** **Loan #61: N/A**
Capitalization Rate:	**Loan #37: N/A** **Loan #61: N/A**	**Loan #37: N/A** **Loan #61: N/A**
Concluded Valuation:	**Loan #37: $234,000** **Loan #61: $560,000**	**Loan #37: Unchanged** **Loan #61: Unchanged**
Loan-to-Value	**Loan #37: 64.50%** **Loan #61: 69.10%**	**Loan #37: 61.25%** **Loan #61: 66.21%**
Inspection Date	**Loan #37: 12/14/2016** **Loan #61: 12/14/2016**	**Loan #37: Unchanged** **Loan #61: Unchanged**

Loan #37:
346 Jefferson Avenue, East McKeesport, PA. The subject is an approximately 20-year-old, one-story building built of concrete block, brick, and frame, is located on the south side of Jefferson Avenue, approximately 30 feet west of North Franklin Street in East McKeesport. The subject encompasses 0.42 acres or 18,400 SF and was reported to be in average condition. The subject building itself is 5,318 SF.

Loan #67:
525 High Street, East McKeesport, PA. The subject is a two-story auto body shop of brick, stucco, and masonry construction containing 13,654 SF and a site area of 0.585 acres originally constructed circa 1870.

Based on the information available within the loan file, it does not appear as though a site visit has been done in the past 12-months for either collateral property. If no site visits have been done within the previous 12 months, it is suggested that the lender perform these visits.

Original Policy and/or Regulatory Exceptions

None noted.

Existing Loan Covenants

All loan covenants established in the commercial loan agreement or commitment letter appear to have been fulfilled to the best of the reviewer's knowledge.

Risk Rating

	Prior	Current
Risk Rating	**5 - Watch**	**4 – Pass**

The reviewer has upgraded the risk rating for 2018 to reflect the following changes to the overall loan relationship;

- Increased historical repayment capacity from previously omitted sources of personal cash flow (pension income in 2016).
- Continued track record of timely and in full payments for both loans #37 and #61.
- Global cash flow in 2017 was strong when factoring in working capital adjustments
- Evidence that 2018 was a record year for the operating entity (Pinnacle) with regard to gross sales and bottom-line profits.

Certification: The loan analysis presented is based on the due diligence documentation and information, the "Loan Package", provided to DFTC, Inc. by the Lender. While DFTC, Inc. has independently reviewed the Loan Package, DFTC, Inc. has made no other third party investigations or validations of the Loan Package. DFTC, Inc. makes no representations or warranties of any kind, express or implied, about the authenticity, accuracy or reliability with respect to the Package that DFTC, Inc. has otherwise relied upon in good faith. DFTC, Inc. has analyzed this information using its professional expertise in preparing what it certifies to be a fair and reliable credit presentation for making the recommendations set forth herein.

This loan analysis has been prepared for use and consideration by management of the Lender, which has and maintains sole and absolute authority for approving or not approving this loan. In no event is DFTC, Inc. or any of its agents, liable, or to become liable, for any loss or damage or any other liability associated with this loan or any parties to this loan including, without limitation, indirect or consequential loss or damage, or any loss or damage or liability whatsoever arising from approving or not approving, or funding, documenting, booking or managing this loan. BWB/ICM