

SBA 504 Loan Program

Webinar

June 18, 2013

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- **Or use option to have AT&T Connect call you**



Financing Real Estate for Mid-Atlantic Businesses

SBA 504 Loan Program

Growing Small Businesses,
Jobs, Communities

Business Finance Group Overview

PROVEN HISTORY

- Nonprofit organization, over 25 years in business
- Largest Certified Development Company (CDC) in the Mid-Atlantic region, top 5% in the country based on loan volume

SUPERIOR SERVICE

- Dedicated and responsive application processing staff
- Designated attorneys and experienced closing team
- Knowledgeable servicing staff dedicated to post-closing assistance

COMMUNITY IMPACT

- Helped over 2,128 small businesses finance \$3 Billion in projects
- Leveraged \$1 Billion in 504 funds with \$1.6 Billion in private funds



What is 504?

Economic Development Financing Tool

- Finances fixed assets for healthy, expanding businesses
- Low down payment to preserve cash to fund growth

Community Benefits

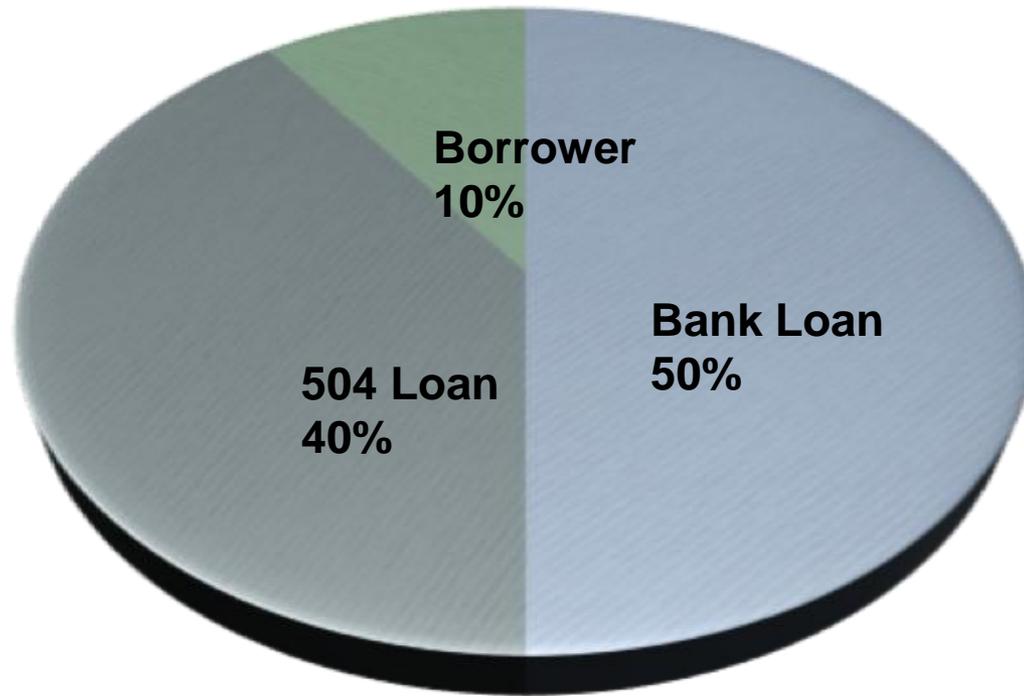
- Jobs created and/or retained
- Increased tax base

Delivery System

- Delivered by nationwide network of 260 CDCs – typically non-profits with an economic development mission



Typical 504 Structure



**Total Project Costs
\$1,000,000**

● \$500,000	10 Year Maturity. Negotiable Rate
● \$400,000	20 Year Fully Amortized Fixed Rate Bond Market
● \$100,000	Borrower Contribution



504 Source of Funds

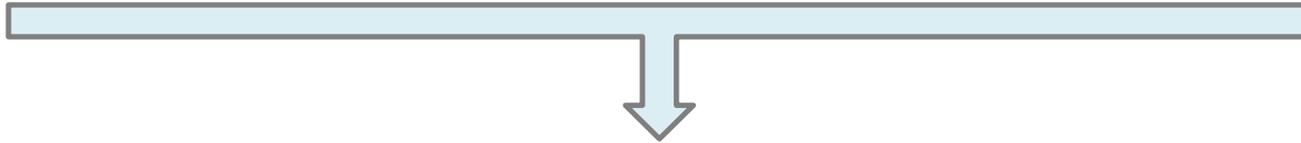
- Bonds sold on Wall Street to institutional investors
 - Life insurance companies
 - Pension plans
 - Mutual funds
- Interest Rate is based on 10 year treasury rate
 - Plus spread to bond investor
 - Plus servicing fees to SBA, CDC, and SBA's bookkeeping contractor
- * For 504 Refinance Loans add 0.1655% due to increased fees

Interest Rate
4.351%*
All-in-fixed for 20years
JUNE 2013
Bond Sale



Fees- Bond Sale Costs

CDC Processing Fee	1.50%
SBA Guarantee Fee	0.50%
Funding Corp Fee	0.25%
Bond Broker Fee	<u>0.40%</u>
TOTAL	2.65%



- Approximately 1% of the total project costs
- Fees are added to the 40% 504 portion and financed over 20 years
- Adds approximately 25 basis points (0.25%) to the 504 interest rate on an “APR” basis
- Bank pays 0.5% fee on 1st trust loan amount



Prepayment Penalty

- Prepayment penalty declines during first 10 years to 0% →
- Loan is assumable and prepayment penalty does not apply

<u>Year</u>	<u>%</u>
1	3.00%
2	2.70%
3	2.40%
4	2.10%
5	1.80%
6	1.50%
7	1.20%
8	0.90%
9	0.60%
10	0.30%
11-20	0.00%



Recent Changes to 504 Regs

Owner Occupancy - 51% of rentable square footage

- Prior to 10/1/12, this was measured on net rentable space in the existing building
- After 10/1/12, we can now include exterior space (except general parking areas) that is actively used in the OC's operations. For example –
 - Yard storage for general contractors
 - Trucking company's designated truck parking
 - Boat slips and docks for marinas



Proposed Changes to 504 Regs

Loan Program

- Affiliation – moving to “50% rule”
- Personal Resources Test - eliminated
- Nine-Month Rule - eliminated
- Third Party Lender Preference

CDC Governance

- CDC Affiliation
- CDC Membership
- CDC Board of Directors
- CDC Annual Reports



Proposed Changes to 504 Regs

Return of 90%

cash-out

refinance



Business Eligibility

- ✓ For-Profit & Privately Held
- ✓ “Small”
 - Net Worth < \$15.0 million
 - After Tax Income < \$5.0 million (2 year average)
- ✓ Creates or Retains Jobs*
- ✓ Or meets a public policy or community development goal of SBA

**1 job per \$65,000 in 504 loan dollars*



Eligible Project Costs

Real Estate (owner occupied)

- Existing Buildings
- Addition/Major Renovation
- Land/Building Construction

Machinery and Equipment

- Minimum 10 Year Life
- Printing Press or Manufacturing Equipment

Soft Costs

- Appraisal & Environmental
- Title & Recording Taxes
- Closing Costs, Bank Points

Refinancing

- Permanent 504 Refinance Program – Expansion costs and existing debt (up to 50% of New Costs in Expansion)
- Temporary 504 Refinance Program – Straight Refinance of Qualified Debt plus Cash Out for Eligible Business Expenses



Project Eligibility

Occupancy

Existing Building 51%

New Construction 60%

- *20% permanently leased*
- *20% to be occupied in 10 years*

Down Payment

Typical 10%

Start-up 15%

Special Use 15%

Both 20%

Project Size

Min = \$200,000

Max = No max project size

Max 504 Loan:

- *\$5,000,000 for most loans*
- *\$5,500,000 for manufacturers & certain energy efficient projects*

Bank Loan can exceed 50%

Projects could be as large as \$20+ million



504 Loan vs. Conventional Loan

<u>Eligible Project Costs</u>		<u>504 Financing Structure</u>		
Land/Building	500,000	Third Party Lender	\$ 500,000	50%
Renovation	400,000	504 portion	\$ 400,000	40%
Equipment	50,000	Borrower Contribution	\$ 100,000	10%
Soft Costs:		TOTAL SOURCES	\$ 1,000,000	100%
Title Charges	3,500			
Recording Taxes	15,000	<u>Conventional Financing</u>		
Appraisal	3,500	20% of hard costs	\$ 190,000	
Environmental	3,000	Soft Costs	\$ 50,000	
Architect / Engineer	15,000	Borrower Contribution	\$ 240,000	
Bank points	10,000			
TOTAL PROJECT COSTS	\$ 1,000,000	BORROWER SAVINGS WITH 504	\$ 140,000	



Application Items Needed

Essentially same information any commercial lender requires:

- ☑ Tax returns on the business
- ☑ Projections, if start-up business
- ☑ Personal financial statement and tax returns for owners
- ☑ Brief History/description of business and owners' resumes
- ☑ Purchase Contract or Letter of Intent, construction/renovation estimates

Application checklist available on our website:

www.businessfinancegroup.org

How long does it take?

Working with us, 10 days for our approval;

5 days for SBA approval



504 Refinance Loan with Expansion

Permanent Part of SBA 504 Program



When is this appropriate?

- Business has existing debt on property and needs a major renovation or expansion
- 504 Project can include all new costs and existing debt (subject to limitations)
 - Existing debt to be rolled into 504 structure is limited to 50% of new costs
 - If existing debt exceeds 50% of new costs, the overage is added to the bank loan AFTER the 504 project is structured



Example 1 – Refinance with Expansion

Appraised Value of Property As-Is	\$1,000,000
Pre-Existing Debt	\$700,000
New Costs	\$2,000,000

<u>Use of Funds</u>		<u>Sources of Funds</u>		
Existing Equity	300,000	Third Party Loan	1,500,000	50%
Pre-Existing Debt	700,000	SBA 504 Loan	1,200,000	40%
New Construction	1,400,000	Borrower Contribution	300,000	10%
Equipment	300,000	TOTAL SOURCES	3,000,000	100%
Soft Costs -				
settlement costs	50,000			
appraisal & environmental	10,000			
contingencies @10%	140,000			
interest carry	100,000			
TOTAL USES	3,000,000			

Note: Existing debt is less than 50% of new costs and is added back to 504 project entirely before the split.



Example 2 – Refinance with Expansion

Appraised Value of Property As-Is	\$1,000,000
Pre-Existing Debt	\$ 800,000 *
New Costs	\$1,200,000

<u>Use of Funds</u>		<u>Sources of Funds</u>		
Existing Equity	200,000	Third Party Loan *	1,000,000	50%
Pre-Existing Debt *	600,000	SBA 504 Loan	800,000	40%
New Construction	900,000	Borrower Contribution	200,000	10%
Equipment	100,000	TOTAL SOURCES	2,000,000	100%
Soft Costs -				
settlement costs	50,000			
appraisal & environ.	10,000			
contingencies @10%	70,000			
interest carry	70,000			
TOTAL USES	2,000,000			

***Note:** Pre-Existing debt exceeds 50% of new costs. So, pre-existing debt added to eligible 504 project cost is limited to \$600,000 (50% of new costs). The remaining \$200,000 in pre-existing debt is added to the bank's 50% loan after the split to create a combined bank loan of \$1,200,000.



Credit Underwriting Considerations

Note – bank requirements may vary



Credit Underwriting Considerations

<u>CASH FLOW ANALYSIS</u>	<u>12/31/2011</u>
Revenues	\$2,734
Pre-tax earnings	\$1,122
plus depreciation	\$16
plus interest expense	\$0
plus rent savings	\$169
plus officers comp. expense	\$249
CASH FLOW AVAILABLE	\$1,557
Existing Debt Service	\$21
Proposed Debt Service	\$308
Officers' Comp. needed (40% personal D/I ratio)	\$385
CASH FLOW NEEDED	\$714
CASH FLOW MARGIN	\$843
CASH FLOW COVERAGE	2.18

- Proven Management
- Cash Flow Coverage
 - Minimum 1:1 cash flow coverage based on historical operations or projections (if start-up business or rapidly growing business)
 - ← Example of how we calculate cash flow coverage



Credit Underwriting Considerations

- Acceptable Collateral Coverage
- Appraisals must have minimum 2 approaches to value

<u>PROJECT COSTS</u>		<u>MINIMUM APPRAISAL CALCULATION</u>	
Land Purchase	700,000	Total Project Costs	2,800,000
New Construction	1,500,000	less Equipment	300,000
Equipment	300,000	Minimum Required R/E Value	2,500,000
Soft Costs -			
settlement costs	50,000	If needed, SBA allows for a 10% tolerance without changing loan amounts	2,500,000
appraisal & environmental	10,000		(250,000)
contingencies @10%	150,000	Minimum Acceptable R/E Value	2,250,000
interest carry	90,000		
TOTAL PROJECT COSTS	2,800,000		



SBA 504 Recap

- **SAVE MONEY**
 - Up to 90% financing
 - Financing includes hard and soft costs
- **IMPROVE CASH FLOW**
 - Below market, fixed interest rate
 - Fully amortizing, 20 year loan on 504 portion
- **TAP INTO EQUITY FOR WORKING CAPITAL**
 - Refinance up to 90% loan-to-value (LTV) with cash out for working capital
- **GROW BUSINESS**
- **QUICK AND EASY LOAN APPROVAL PROCESS**



CDC's Covering West Virginia

West Virginia Certified Development Corp (WVCDC)

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Regional Economic Development Partnership

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Contact Person: Brian Komorowski

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Business Finance Group, Inc

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Questions???

Thank You!!