

SBA 504 Loan Program

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SBA 504 Loan Program

Presented by
Regional Development
Funding Corporation



Acknowledgement

We would like to thank Rebecca MacBlane and Nathan Nyland for their time and providing information regarding their experience in lending and working on SBA 504 loans from their perspective.

SBA 504 Program Details and Eligibility Information

SBA 504 Program Objectives

Fosters Economic Development through:

- ◉ Job creation or retention (1 job per \$65K)
OR
- ◉ Achievement at least one of:
 - > SBA's 5 community development goals or
 - > SBA's 10 public policy goals

What is a “504” Loan?

- Partnership between Banks and Certified Development Companies (CDC's)
- Available to For-Profit Companies
- Provides funding for fixed-asset purchases (i.e.: real estate, substantial equipment)
- For primarily Owner-Occupied real estate
 - > 51% for acquisition; 60% for new construction
- Businesses located in the U.S.
- “Small” under the SBA's size standards
 - > TNW – not more than \$15 million
 - > NIT – not more than \$5 million (average of last 2 years)

“504” Loan Limits

- \$5,000,000 for most transactions
- \$5,500,000 for Manufacturing projects, Energy Efficient projects and Renewable Energy projects
- No limit on project size

Eligible “504” Projects

Fixed assets with a useful life of at least 10 years:

- Land and new building construction
- Existing building acquisition
- Building renovation
- Machinery and equipment (verified by statement from equipment manufacturer or appraisal)
- Asset-based company acquisitions
- Limited term loan & mortgage refinancing in the original SBA 504 Loan Program ($\leq 50\%$ of “expansion costs”)
- Plus, all related soft project costs

Eligible “504” Project Costs

- Acquisition-related legal expenses & closing costs
- Construction contingency up to 10%
- Appraisal & environmental reports
- Title insurance
- Flood insurance
- Surveys/Architectural fees
- Equipment Installation costs
- Any costs associated with Bank’s Bridge Loan, including points, interest and filing fees.

“504” Loan Terms: Interest Rates

- Established at the time of the bond sale, after the project is complete
- Typically lower than conventional financing (4.31% in April 2016 for 20 yrs; 4.55% for 10 yrs. in March 2016)
- Fixed for the life of the loan

(Note: “Funding” occurs approximately 60 days after completion of a “504” project)

Outlining Typical Project

Use of Funds:

Building Purchase	\$ 800,000
Improvements	\$ 100,000
FF&E	\$ 70,000

Related Fees

Appraisal	\$5,500
Architect	\$2,500
Transfer Tax	\$8,000
Title Insurance	\$5,000
Interim Interest	<u>\$9,000</u>

\$ 30,000

Total Project Cost \$1,000,000

A Typical “504” Project Financing Structure

◎ 50/40/10:

- > **50%** Private sector loan
- > **40%** 504 loan
- > **10%** Equity or subordinated debt

Bank: \$1,000,000

SBA: \$ 800,000

Equity: \$ 200,000

Loan Structure for Start-up or Single Purpose Project

◎ 50/35/15:

- > **50%** Private sector loan
- > **35%** 504 loan
- > **15%** Equity or subordinated debt

Bank: \$1,000,000

SBA: \$ 700,000

Equity: \$ 300,000

Combination “504” Loan Structure

- Combined Start-up AND Single Purpose project financing requires financing levels of 50/30/20:
 - > **50%** Private sector loan
 - > **30%** 504 loan
 - > **20%** Equity or subordinated debt

Bank: \$1,000,000

SBA: \$ 600,000

Equity: \$ 400,000

Common “504” Projects

- Manufacturing/Industrial/Commercial buildings
- Hotels/Motels
- Personal care and nursing home facilities
- Day care facilities
- Automobile and motorcycle dealerships
- Gas Station/Convenience Stores
- Fitness Centers

Common “504” Projects

- ◉ Restaurants/Bars
- ◉ Franchises (i.e. Meineke, Dunkin Donuts, etc.)
- ◉ Funeral Homes/Crematoriums
- ◉ Car Washes
- ◉ Self-Storage Facilities
- ◉ Office Buildings/Medical Offices
- ◉ Any Equipment with a useful life of at least 10 years

Dispelling Myths about SBA Lending

- The 504 Loan Program is not the “Lender of Last Resort”—it should be used for strong, established companies, not just marginal deals or start-ups.
- SBA approval turn-around is about 10 business days or less.
- Borrower will not be overwhelmed with paperwork—the CDC completes the applications.

Advantages to Bank

- Loan-to-value ratio of 50%.
- May tolerate higher default risk and increase Bank's comfort level with certain industries.
- Ability to finance larger and/or multiple projects .
- Obtain or maintain customer relationship and deposits.
- Community Reinvestment Act (CRA) Credit.
- The Bank does not have to obtain an SBA guaranty, as in SBA 7(a) lending.
- CDC handles all SBA documents.
- In case of default, Bank does not have to interface with SBA.
- Appraisal can be as low as 90% of the total project costs.

Advantages to Borrower

- Below-market fixed interest rates.
- Low down payment preserves working capital (usually 10%).
- Offsets interest rate risk.
- Extended amortization provides lower monthly payment.
- Improved cash flow coverage.
- Borrower can finance most closing fees.
- Lower fees compared to 7A program for similar sized projects.
- Collateral is typically limited to project assets.

Successful CDC/Bank Strategies

- Develop a “relationship” with your CDC.
- CDC loan officers can accompany you on customer calls to answer technical questions.
- Bank and CDC share information to expedite processing and to minimize the need for customers to duplicate information.
- Agree on structure before you get approvals in place.

Use 504 as a Marketing Tool

- Use the 504 for your best customers (not just the marginal deals).
- Offer a “504” as a structuring advantage before your competition does—it can help you win deals!
- Builds loyalty.

SBA 504 Debt Refinance Program is BACK!!

The **CREED Act** was originally enacted as part of the Small Business Jobs Act of 2010. It expired in September, 2012, but during that time, over **2,700 Businesses refinanced nearly \$7 billion** in old, expensive debt and unleash capital reinvested into their businesses to create and sustain jobs. The measure literally saved thousands of businesses in communities across the country during the recession, helping them accelerate the economic recovery.

SBA 504 Debt Refinance Program is BACK!!

The SBA is working to develop credit models, policies and procedures for the **SBA 504 Refinance Program**, and will issue more information as the process continues. New policy guidelines should be released within the next month, ***so stay tuned for further developments!!***

SBA 504

Sample Projects

Campground

Sources	
Bank	\$1,931,177
SBA 504	\$1,051,823
Fay Penn	\$300,000
Equity	\$579,343
Total	\$3,862,343
Uses	
Land Equity	\$579,343
New Construction	\$1,140,000
Equipment	\$938,000
Debt Refinance	\$1,055,000
Soft Costs	\$150,000
Total	\$3,862,343



Ophthalmic Product Manufacturer

Sources	
Bank	\$817,500
SBA 504	\$654,000
Equity	\$163,500
Total	\$1,635,000
Uses	
Land Purchase	\$95,000
New Construction	\$1,450,000
Soft Costs	\$90,000
Total	\$1,635,000



Wood Pellet Manufacturer

Sources	
Bank	\$625,000
SBA 504	\$500,000
Equity	\$125,000
Total	\$1,250,000
Uses	
Equipment Purchase	\$1,200,000
Equipment Installation	\$50,000
Total	\$1,250,000



Supermarket

Sources	
PNC Bank	\$801,195
SBA 504	\$640,956
Equity	<u>\$160,239</u>
Total:	\$1,602,390
Uses	
Equipment	<u>\$1,602,390</u>
Total:	\$1,602,390



Optometrist

Sources	
Bank	\$340,000
SBA 504	\$272,000
Equity	<u>\$68,000</u>
Total:	\$680,000
Uses	
Refi Existing Debt	\$80,000
Construction	\$450,000
Equipment	\$50,000
Soft/Closing Costs	\$32,000
Land Equity	<u>\$68,000</u>
Total:	\$680,000



Medical Office Building

Sources	
Bank	\$1,717,500
SBA 504	\$1,374,000
Equity - Land	\$110,000
Equity - Cash	\$233,500
Total:	\$3,435,000
Uses	
Land Equity	\$110,000
Construction	\$2,520,000
Contingency	\$200,000
Debt Refinance	\$430,000
Soft/Closing Costs	\$175,000
Total:	\$3,435,000



Self-Storage Facility

Sources	
Bank	\$382,000
SBA 504	\$260,000
Equity - Land	<u>\$225,000</u>
Total:	\$867,000
Uses	
Refi Existing Debt	\$147,000
Construction	\$390,000
Equipment	\$70,000
Soft/Closing Costs	\$35,000
Land Equity	<u>\$225,000</u>
Total:	\$867,000



If You Think You Have a
Potential “504” Deal—
CALL US!!



1000 Coombs Farm Drive, Building A, Unit 101
Morgantown, WV 26508
(877) 832-6504

OR

3856 South Water Street
Pittsburgh, PA 15203
(412) 471-1030

www.rdfc.net
nnyland@rdfc.net
rmacblane@rdfc.net

Contact:
Nathan Nyland or Rebecca MacBlane

WV Lender Relations Contacts

Rick Haney

Clarksburg WV Office

304-623-7449

Richard.haney@sba.gov

Leo Lopez

Charleston WV Office

304-347-5220

Leo.lopez@sba.gov

QUESTIONS???