



**SBA 504
Financing
Revisited**

**The 504 (Grow)
Program**

What is the 504 Program

- An Economic Development financing tool utilized for business growth and expansion
- Provides qualified businesses with long-term, below market, fixed rate financing
- Used for the purchase of owner occupied commercial real estate, building expansion or improvements, and equipment purchases
- Needs only a small equity contribution compared to conventional financing, thereby preserving working capital
- Requires participation of a bank and Certified Development Company (CDC), who administers the government guaranteed portion

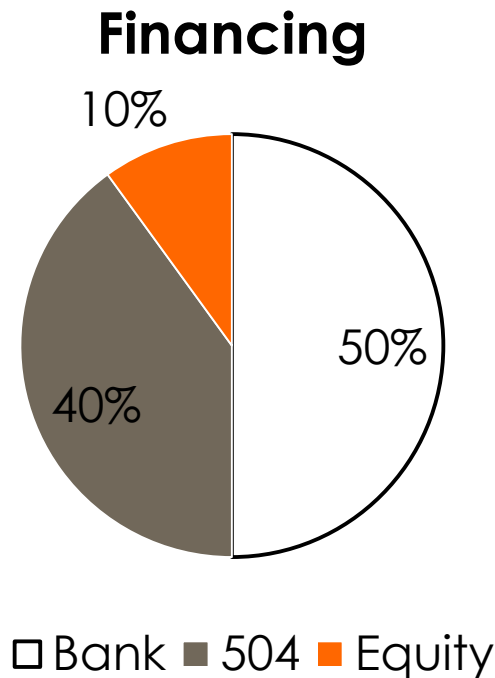
Eligibility and Size Requirements

- For profit businesses
- 504 is available to businesses in all stages from startup to well established companies
- Size Limitations:
 - Net worth not to exceed \$15 million
 - Net profit less than \$5 million averaged over prior 2 years
- Project Size:
 - No cap on total project, only on 504 portion
 - Up to \$5.5 Million on manufacturing and energy conservation projects
 - Up to \$5 Million on standard projects
- Project must create jobs within 2 year
 - 1 Job per \$65,000 from the SBA
 - 1 Job per \$100,000 from SBA for Small Manufacturers
 - Public Policy exceptions

504 Loan Program

- Up to 90% financing for a fixed asset transaction:
 - Real estate – owner occupied real estate:
 - Existing building 51% occupied by the applicant business
 - Newly constructed building 60% occupied by the applicant business
 - Equipment – must have a useful life of 10 years
- Long term fixed rates:
 - Real Estate – 20 years
 - Equipment – 10 years
- Low interest rates:
 - Real Estate – 504 loan is 4.59%
 - Equipment – 504 loan 4.60%

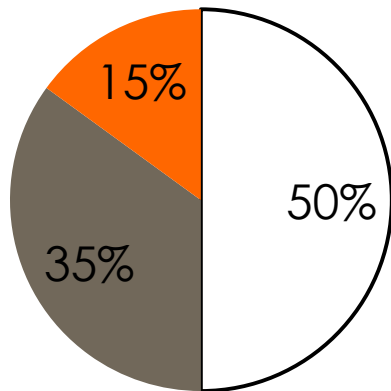
504 Structuring



- 50% of project cost is financed by a bank in a first lien/mortgage position.
- 40% of project cost is financed by 504 in a second lien/mortgage position.
- 10% is required equity contribution.

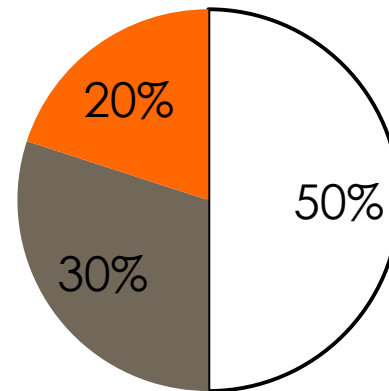
504 Structuring

**Start Up OR Special Use
R/E**



□ Bank ■ 504 ■ Equity

**Start Up AND Special
Use R/E**



□ Bank ■ 504 ■ Equity

504 First Steps

- Determine eligible project costs:
 - Purchase asset
 - Real estate
 - Office buildings and condos
 - Warehouses
 - Hotels
 - Gas Stations
 - Assisted Living Facilities
 - Sports Arenas
 - Equipment
 - Energy Conservation Projects
 - Renovations/Construction
 - Soft Costs
 - Construction interest
 - Real estate due diligence
 - Engineering and architectural fees
 - Moving expenses
 - Equipment rigging and installation costs
- Can refinance existing debt if eligible – debt up to 50% of total new project costs
- Ensure appropriate equity contribution is available - equity can be from multiple sources including cash, seller financing, home equity loans, and subordinate financing from an economic development agency

The Application Process

- The CDC works directly with the borrower and bank to obtain the financial package to reduce the burden on the borrower.
- The 504 only requires a few more documents than a conventional commercial mortgage.
- The bank and the CDC underwrite simultaneously to avoid delays.
- Get your bank and CDC involved early in the process to help with structuring the financing and setting expectations.

504 Fees

- SBA is currently waiving the Guaranty Fee on 504 loans
- Fees to Borrower are approximately 2.2% plus closing fees and costs

A. SBA Share (<u>40.00</u> %) of Project Cost	\$ <u>400,000.00</u>
B. Administrative Costs	
1. SBA Guarantee Fee (Ax <u>0%</u>)	\$ <u>0.00</u>
2. Funding Fee (Ax0.0025)	\$ <u>1,000.00</u>
3. CDC Processing Fee (Ax <u>1.500</u> %)	\$ <u>6,000.00</u>
4. Closing Costs	\$ <u>3,000.00</u>
5. Total (B1 thru B4)	\$ <u>10,000.00</u>
6. Underwriters Fee*	\$ <u>1,656.00</u>
7. Total (B5 plus B6)	\$ <u>11,656.00</u>
C. Total Debenture Amount (A plus B7, rounded up to next thousand)	\$ <u>412,000.00</u>
D. Balance to Borrower (C minus (A + B7))	\$ <u>344.00</u>

- Third Party Lender subordination fee is 0.5% of the First Mortgage

NEW!

504 Debt Refinancing Program

- Originally developed through the Small Business Jobs Act of 2010
- Congress would consider re-establishing when the 504 program got to zero-subsidy
- Introduced to Congress in May 2015, approved in December 2015 and Policy Notice released May 2016
- Official launch date of June 2016 with updated regulations November 2016
- SBA 504 program must be at zero-subsidy

Navigating the Permanent 504 Refinance Program

Fast Facts

- The proceeds were used to acquire and is secured by an eligible fixed asset and benefit a small business concern
- Borrower has been in operation under the same ownership for at least 2 years as of the date of application without a change of ownership that will result in new, unproven ownership/management and increased debt unrelated to business operations*
- Refinanced debt cannot be guaranteed by a Federal Agency
- Refinanced debt incurred 2 or more years before the application date and paid current for at least one year prior to the date of application
- Business operation expenses can be included into project refinancing
- Eligible business expenses included in the refinance project shall not exceed 25% of the project & the overall LTV shall not exceed 85%*
- Appraisals are not required at the time refinance application. Appraisals are required to be dated within 1 year* prior to the approval supporting 90% or less LTV
- Borrowers must meet all current 504 loan eligibility requirements
 - Job Creation
 - Occupancy

*changes as of 11/18/16

Eligible Business Operating Expenses

- **Expenses, other than Qualified or Other Secured Debt, that were incurred but not paid prior to the date of application or that will become due for payment within 18 months from application**
 - **Salaries**
 - **Rent**
 - **Utilities**
 - **Inventory**
 - **Property Repairs/Maintenance**

504 Debt Refinancing Program Example

Request

Refinance \$300,000 in Qualified Debt plus \$600,000 in secured debt borrowed over the last 8 years for the property purchase, equipment purchases and re-structuring of an evergreen line of credit . Property is appraised at \$1,000,000.

Comments

The request meets program guidelines. Total LTV does not exceed 90%.

Acceptable Structure

Refinancing Project (Appraisal)	\$ 1,000,000
Qualified Debt	\$ 500,000
Other Secured Debt	\$ 400,000
Total Project Financing	\$ 900,000
Third Party Loan	\$ 500,000
SBA 504 Loan	\$ 400,000
Borrower Equity Contribution	\$ 100,000

504 Debt Refinancing Program Example

Request

Refinance \$500,000 in Qualified Debt plus \$200,000 in secured debt borrowed 3 years ago for equipment purchases and inventory, plus \$50,000 for next year's salary for an additional employee. Property is appraised at \$1,000,000.

Comments

The request meets program guidelines. The Business Operating Expenses do not exceed 25% of the Refinance Project and the total LTV does not exceed 85%.

Acceptable Structure

Refinancing Project (Appraisal)	\$ 1,000,000
Qualified Debt	\$ 500,000
Other Secured Debt	\$ 200,000
Business Operating Expenses	\$ 50,000
Total Project Financing	\$ 750,000
Third Party Loan	\$ 375,000
SBA 504 Loan	\$ 375,000
Borrower Equity Contribution	\$ 250,000

Why use an SBA 504 loan?

- Loan to value 50% or less
- Mitigates risk to Partnering lender
- SBA will take a second lien
- Available for almost any industry
- Reduces Industry Concentration in Lender's Portfolio
- Alleviate Legal Lending Limit restrictions
- In a rising rate environment, the 504 program has become even more attractive with rates in the mid 4% range, fixed for 20 years
- Low down payment

Thank you!

Please contact us
with any SBA 504
Questions

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