

# ***SBA 504 Financing***

## **Long Term Asset Financing Made Possible**

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These proposals are contingent upon final Chase Bank review and approval from the SBA.

This proposal is not meant to be, nor shall it be construed as an attempt to define all of the terms and conditions of the transactions involved in the financing. Rather, it is intended only to outline certain basic points of understanding around which the legal documentation is to be structured.

Further negotiation within the general scope of these major terms shall not be precluded by the issuance of this proposal.

# Pricing Options – Flywheel Industries, LLC



- **SBA 504 Loan**
- Land Purchase : \$1,450,000
- Cost of Building Construction, Core & Shell : \$4,800,000
- Tenant Improvements : \$2,000,000
- Total Project Cost : \$8,250,000
- Bank Permanent Loan : \$4,125,000
- SBA Loan Amount : \$3,300,000
- Borrower Injection : \$825,000
- Guarantors : All individuals or entities that have more than 20% ownership in either the Real Estate Holding Company or the Operating Company occupying the building.
  
- **Bank Permanent Loan \***
- Loan Amount : \$4,125,000 \$4,125,000 \$4,125,000
- Amortization : 20/10 yr fix 20/10/7 yr rate adj. 20/10/5 yr rate adj. 20yr
- Interest Rate : 4.59% 3.97% 3.80%
- Monthly Payment : \$26,440 \$25,051 \$24,678
- Spread over TCM : 2.96% 2.90% 3.16%
- 5 yr index = .640 7 year index = 1.07 10 year index = 1.63
- Collateral Requirements: 1<sup>st</sup> lien on land and building
- "TCM" is the Treasury Constant Maturity Index
- \*Assumes construction period of 12 months, interest only @ 3.75% floating
- **SBA Loan:**
- Loan Amount: \$3,300,000 + estimated SBA processing fees summarized below
- Interest Rate: Most recent bond sale of September 2012 experienced an interest rate of 4.279%. \* Please note actual interest rate will be determined when all monies have been disbursed, and project is placed in bond sale.
- Repayment Terms : monthly principal and interest payments amortized over 20 years
- Monthly Payment : estimated to be \$20,486 \*\*
- Maturity : 20 years
- Collateral Requirements : 2<sup>nd</sup> lien on land and building
- \*\* This assumes an interim loan for 15 months, interest only until SBA funds their portion of the loan. This interim period will be interest only @ 3.75% floating.
- Estimated SBA fees of \$89,450 (\$3.3MM X 2.65% + attorney fee of \$2,000 )and closing costs to be rolled into debenture.

# Why use the SBA 504?

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## **Benefits to Business Customers**

- Give customers competitive rates and flexible loan terms
- Low down payments (often only 10% down), 15% on special use properties
- Low exposure to the Bank (usually 50% LTV)
- Business is able to conserve capital
- Certain fees may be financed as part of the project cost
- Attractive fixed rate on junior lien - September Debenture rate is 4.279%
- Bank portion can be extended to a 30 year amortization if necessary.
- When SBA portion is a 20 year debenture, bank's loan term must be at least 10 years. When SBA portion is a 10 year debenture, bank's loan term must be at least 7 years.
- Fixed rate for 10 or 20 years on the SBA portion

# What is the SBA 504 Program?

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**An economic development program in which the Bank partners with the SBA to provide funds for:**

- Acquisition of real estate
- Construction and/or expansion
- Acquisition of long-term fixed assets
- Leasehold improvements

# Maximum 504 Loan - SBA guaranty

- The SBA 504 loan is available for up to 40% of the total project cost with a maximum of \$5MM and a minimum of \$25K.
- This maximum can be increased to \$5.5MM for manufacturers and businesses meeting the SBA's "green" (energy efficiency) public policy goal.
- The 504 loan will take the Second Mortgage position.

\* For certain NAICS codes

# Eligibility Requirements

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- **For-profit business, located in the US**
- **Must meet one of the following size standards (with affiliates)**
  - Maximum \$5MM average pre-tax net profit (over the last three years)  
AND maximum \$15MM tangible net worth
  - Meet the size standard for the industry in which it is primarily engaged
- **Business must demonstrate sound repayment capabilities**
- **Owner occupancy**
  - 51% for existing property
  - 60% for new construction
- **Must meet an eligible loan purpose**
  - Acquisition of vacant land and construction
  - Acquisition of land and building
  - Construction/Renovation/Addition to a building
  - Acquisition of heavy-duty machinery & equipment
  - Leasehold improvements

# Owner's Equity

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- **Two forms of the borrower's injection are acceptable under the 504 program**
  - Cash
  - Land Equity
- **The injection will be increased an additional 5% over the standard 10% for each of the following types of projects:**
  - Start-ups (less than 2 years)
  - Special purpose assets and/or
  - Limited use assets

# Project Costs

## **Eligible Project Costs included in total project**

- **Soft costs associated with the real estate**
  - Title searches and insurance
  - Attorneys fees
  - Appraisals and environmental reports
  - Architect fees
  - Permits and surveys
  - CDC fees
  - Interim construction interest
  - Machinery installation expenses
  - Real Estate broker fees
  - Refinancing existing debt may be eligible under very limited instances

## **Ineligible Project Costs not included in the total project**

- Mortgage broker fees
- Points on permanent financing
- Moving expenses
- Costs associated with generating corporate documents

*Note: Eligible project costs can be financed into the total project but must be included in construction budget & contract. Any eligible costs that are paid by the borrower before closing and are part of the construction contract can be applied toward borrower equity.*



# How does the 504 Program Work?

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## **The customer is approved for two separate loans**

- A conventional Chase loan, secured by a first lien on the asset being financed.
- An SBA loan, secured by a second lien on the asset being financed.
  - This facility is approved by a non-profit agency, licensed by the SBA, known as a Certified Development Company (CDC)

### **Bank Loan**

- Interest rate is negotiated
- Term is negotiated
  - Minimum 7 years for equipment (up to 10-year amortization) or leasehold improvements
  - Minimum 10 years for real estate (up to 30-year amortization) or construction
- First lien on financed assets
- Up to 30 year term

### **CDC Loan**

- Attractive interest rate, fixed at time of bond sale (historically priced approximately 250 basis points over 10-year treasury securities)
- Term is set by the CDC
  - 10 years for equipment or leasehold improvements
  - 20 years for real estate or construction
- Second lien on financed assets
- Fees are set by the CDC at approximately 3% of the SBA loan and are rolled into the loan

# SBA 504 Loan Structures

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- **50/40/10 Structure**

- Bank conventional loan for 50% of project cost
- CDC loan for 40% of project cost
- Borrower equity injection for 10% of project cost
- Type of Business= existing businesses and general purpose property

- **50/35/15 Structure**

- Bank conventional loan for 50% of project cost
- CDC loan for 35% of project cost
- Borrower equity injection for 15% of project cost
- Type of Business= Specialty properties or startups

# Target Customers

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- Customers seeking to achieve a capital investment in real estate or other fixed assets including leasehold improvements
- Customers who want to expand or renovate property.
- Customers seeking to preserve capital and inject a limited amount of equity into a real estate project.
- Customers seeking to reduce P&I payments by using a longer amortization period (20 year) and taking advantage of a lower interest rate.

## **Desirable Business**

- For profit companies
- Satisfactory historical cash flow and credit
- Strong management or industry experience

# Common Objections & Questions

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## **Concerned with bringing a third party into the transaction**

- The bank and the local CDC partner together to offer the SBA 504 program as an option to our borrowers. The Specialty Finance group is there to help work through any issues that may arise during the process.

## **Possible delays in processing**

- If everyone works together, the SBA 504 process should be a very smooth experience.

## **Additional SBA fees**

- SBA fees are financed right into the SBA's debenture, so there is little if any out of pocket expense. Most other fees related to the project can be made a part of the actual project and thus financed.

## **Possibility of additional requirements beyond bank requirements**

- Under most circumstances, the same financial package that is provided to the bank is what is required by the CDC. There may be some additional requirements that the CDC requires.

## **Concern with multiple closings**

- There will indeed be two closings, the SBA closing will be in addition to the Bank closing as it involves preparation for the bond sale.

# FAQ

## **When should the CDC be contacted and when should they be brought on board?**

- In most cases, the CDC can be brought into the process early so that they can get familiar with the deal and give their initial take on the project.

## **What is the interest rate on the 504 piece? If it is not established until the bond sale, how do I know what it will be?**

- The interest rate on the 504 portion of the loan will be established at the time of the bond sale. The exact rate will have historically been priced approximately 250 basis points over the 10-year treasury securities

## **Can existing equity be used as a down payment?**

- Yes, if the project is a construction or renovation, equity can be pledged by way of land equity, or existing equity in the building.

## **When does SBA pay off the interim loan?**

- The SBA will payoff the interim loan after the bond sale occurs, which on a non-construction project is typically within a 90 day period. If there is construction, the SBA loan will not be paid off until the construction is completed and occupancy permits given.

## **What is the time frame for approval?**

- It varies by CDC, but the typical turn around time for approval is within 30-45 days. Some CDCs may be able to get an approval within a 30 day period.

## **Does the customer make 2 loan payments?**

- Yes, the customer will make a loan payment to the bank and also a payment will be made to the CDC (by way of a direct withdrawal to Colson Services)