

PURCHASE AREA DEVELOPMENT DISTRICT - Disclosure Statement -

... Information about the SBA 504 loan program available through PADD

The SBA 504 Loan Program

The US Small Business Administration's (SBA) 504 loan program offers eligible small businesses a way to help finance expansion or refinancing projects using long-term, fixed-rate financing. A 504 loan, offered in partnership with a regular loan from a participating private sector lending institution, is able to provide a business with up to 90% of a project's total financing requirements. The SBA relies on the services of a "certified development company" like PADD to package, close, fund and service 504 loans. PADD provides small businesses with access to the 504 loan program throughout the state of Kentucky.

This Disclosure Statement highlights routinely encountered rules associated with the 504 loan program and is intended for informational purposes only. It is not meant to be a complete listing of all relevant policies / requirements. Please visit PADD web site (www.purchaseadd.org) to view more up-to-date program news.

1. NO REPRESENTATIONS: The funding of a 504 loan is subject to satisfactory compliance with the terms and conditions set forth in a loan commitment document known as the SBA's Authorization for Debenture Guarantee.

By signing this Disclosure Statement, a small business applicant acknowledges that he / she has not relied upon any representation made by PADD and / or its agents, and that PADD and / or its agents have made no representations or promises to the applicant and its agents regarding a formal PADD or SBA approval of a loan or of qualifications to receive a loan through the 504 loan program.

2. OBJECTIVE OF THE 504 LOAN PROGRAM:

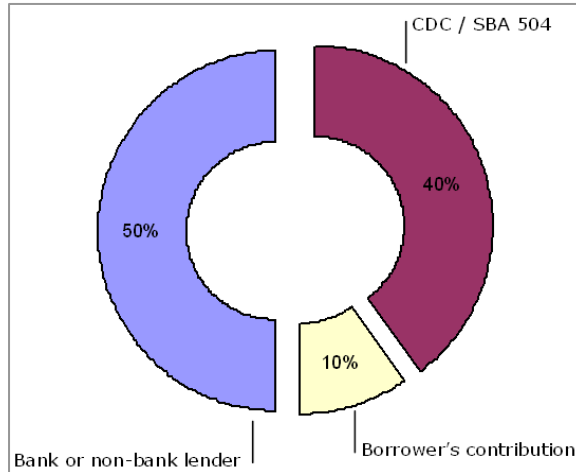
The 504 loan program was created by Congress in 1986 as an economic development financing tool to promote both job creation and wealth creation by encouraging businesses to acquire ownership of commercial real estate and other fixed assets utilized in the day-to-day operation of that small business.

The overall objective of the 504 loan program is twofold.

- First, the program is intended to encourage eligible businesses to invest in real estate or capital equipment primarily used by that business. It does this by offering attractive, long-term, below-market-fixed-rate financing with typically less money down than under a conventional financing scenario. This encourages eligible small businesses to acquire real estate and capital equipment sooner rather than later in order to begin to build wealth and equity for their firms which could be utilized for future expansion financing or even as a retirement / exit strategy for the business principals.
- Secondly and arguably more importantly in the current economy, the 504 program is designed to mitigate private sector risk by providing junior financing behind a conventional commercial loan. On a typical project, a private sector lender will finance 50% of the project cost which makes a 504 loan project a much more appealing project for most lenders because the majority of the risk falls on the 504 loan.

In the event of a default or foreclosure, the only way that the 504 program will recover the money

owed to it will be to pay off the private sector loan that sits in the "senior" position on the fixed assets that have been financed with loan proceeds.



3. HOW DOES THE PROGRAM WORK?:

The 504 loan program is a unique example of a private sector / public sector financing program. A 504 loan is a second deed of trust / second mortgage loan

that sits behind a conventional private sector (but not a seller) loan. Typically, the private sector lender will finance 50% of the project cost and the 504 loan will finance up to 40% of the project cost. The borrower will have at least 10% at risk in the project and end up with two loans and two loan payments as a result of the financing structure.

While 40%, up to a defined dollar amount, is the maximum 504 share of the project, this percentage will be less if the borrower is a start up business or if the property being financed is a special purpose or limited use property:

- If a small business has been in operation for two years or less, it must invest a minimum 15% share of the eligible project costs, reducing the 504 participation to a maximum of 35% of the total project costs.
- If a project involves a special purpose or limited use structure (like a gas station, car wash, hotel, etc.), an eligible small business must invest a minimum 15% share of the eligible projects costs, reducing the 504 participation to a maximum of 35% of the total project costs.
- If the project involves BOTH a start-up business and a special purpose or limited use building, a small business must invest a minimum 20% share of the eligible projects costs, reducing the 504 participation to a maximum of 30% of the total project costs.

4. TWO STAGE PROCESS: There are two distinct stages involved with securing financing under the 504 loan program.

1. An "application" (the basis of this information package) which is used to generate a loan approval, and,
2. A "funding" which occurs once all the collateral conditions that were part of the approval have been met.

The funding of a 504 loan will only occur once a project is complete and all the final costs fully disbursed. This requires a partner private sector lender to provide a short-term bridge or construction loan equivalent to the 504 share of the project while documents are

prepared and submitted to the bond market in New York (the source of 504 proceeds) for the actual 504 loan funding.

5. INTEREST RATES: As the partner certified development company associated with processing, approving and funding a 504 loan, PADD will facilitate the sale of a "debenture" (= a bond) to provide the 504 financing share of an approved project.

Individual requests for financing under the 504 loan program are aggregated each month into a single pool that may contain between 300 and 500 requests from all across the United States. This pool becomes an individual debenture which receives the full faith and backing of the US Government and is then offered to institutional investors. A 504 debenture pool is offered / sold just once a month on the New York market. At the time of sale, a FIXED RATE will be assigned to that debenture pool which stays with all the individual loans that are part of that pool, for the life of the loan or until that loan is paid off.

It is important to remember that the 504 interest rate cannot be set for a borrower until their individual request has been included in a specific debenture offering, which is then subsequently sold and funded. So, unlike the private sector lender loan in the senior position on a 504 project, a borrower won't actually know what their final 504 interest rate will be until the 504 debenture funds.

6. FEES AND COSTS: The 504 loan program is intended to be a taxpayer-neutral program in the sense that minimal and hopefully no taxpayer dollars are used to maintain the program. Borrowers pay fees to secure their 504 loans (in the same way that banks charge borrowers fees)

and these fees ensure that the program remains largely independent of taxpayer subsidization. The majority of the fees associated with the 504 program are defined by statute as part of the federal budgeting process that occurs each year.

Generally speaking, there are two

broad categories of fees associated with securing a 504 loan, and these are separate and independent of any fees a partner bank or other private sector lender might charge for their loan.

Total Project Cost:	\$ 1,000,000.00
Bank's Conventional Loan:	\$ 500,000.00
Net SBA 504 Loan Proceeds:	\$ 400,000.00
Borrower's Contribution:	\$ 100,000.00
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A. SBA 504 Net Loan Amount:	<u>\$ 400,000.00</u>
B. Administrative Costs ("Administrative Costs")	
1. SBA Guarantee Fee (A. x 0.005)	\$ 2,000.00
2. Funding Fee (A. x 0.0025)	\$ 1,000.00
3. CDC Processing Fee (A. x 0.015)	\$ 6,000.00
4. Closing Costs *	
(I) CDC Attorney Closing Fee (not to exceed \$2,500)	\$ -
(II) Other Out of Pocket Closing Costs (excluding legal fees)	\$ -
5. Subtotal (B.1 through B.4)	\$ 9,000.00
6. Debenture Underwriters Fee **	\$ 1,644.00
7. Total Fees (B.5 plus B.6)	<u>\$ 10,644.00</u>
C. Net Debenture Amount (Net SBA Loan + Fees)	\$ 410,644.00
D. Total Debenture Amount ("Gross Debenture Proceeds")	<u><u>\$ 411,000.00</u></u>
E. Balance Returned to Borrower	\$ 356.00

There are one-time 504 loan program fees, usually built into the 504 loan, and there are fees built into the interest rate a borrower pays when a 504 loan funds.

ONE TIME FEES ASSOCIATED WITH ORIGINATING / CLOSING / FUNDING A 504 LOAN

- **Funding Fee: 0.25%**
This fee, paid to the fiscal agent in New York who assembles the monthly 504 debenture pool, is a percentage of the 504 share of the financing and must be financed as part of the 504 debenture.
- **Guaranty Fee: 0.50%**
This fee, paid directly to the SBA, is a percentage of the 504 share of the financing and must be financed as part of the 504 debenture.
- **Processing Fee: 1.50%**
This fee, paid to PADD, is a percentage of the 504 share of the financing and can either be financed as part of the 504 debenture or paid for separately by the borrower, out-of-pocket.
- **Attorney Fee: \$2,500**
This fee is a flat fee charged to reimburse attorney closing costs specific to PADD and can either be financed as part of the 504 debenture or paid separately by the borrower out-of-pocket. In most cases, that amount is not known until closing and is therefore paid separately. A maximum amount of \$2,500 can be rolled into the loan amount, if desired.
- **Closing Fees (Other): Varies with loan size**
Title insurance and miscellaneous recording fees are a function of every commercial real estate transaction. These costs can either be financed as part of the 504 debenture or paid for separately by the borrower, out-of-pocket.
- **Underwriter's Fee: 0.400% (20 year term)**
Underwriter's Fee: 0.375% (10 year term)
This fee, paid to the underwriting firm in New York who markets and sells the monthly 504 debenture, is a percentage of the actual 504 loan (not the 504 share of the financing) and must be financed as part of the 504 debenture.
- **Balance to Borrower: Varies with loan size**
This will actually be a reimbursement to the borrower of an amount between \$1 and \$999.

When a 504 loan funds, the percentage of the 504 share of the financing plus all the above fees, is the amount that will actually be financed. Whatever this adds to will be rounded up to the next even thousand dollars because the bond market will only work with loan amounts in even thousand dollar amounts. The difference between this rounded number and the actual number will be reimbursed to the borrower by check soon after the debenture funds in New York.

- **Bank Participation Fee: 0.50%**
This fee, paid to and collected by the partner private sector lender, is a percentage of that lender's share of the financing project. This fee is collected in addition to any other origination fees or points charged by that lender to the borrower. The small business will be responsible for paying this fee and any other origination fees a partner lender charges on its permanent first deed of trust position loan outside the 504 loan project. Bank participation fees and bank origination fees associated with the permanent senior loan may not be included in the total project cost calculation for determining relative financing shares under a 504 project.

FEES INCLUDED IN THE 504 LOAN PROGRAM EFFECTIVE INTEREST RATE

The interest rate a borrower pays under the 504 loan program is a function of the underlying cost of the debenture sold to fund that individual 504 loan (= "debenture note rate") plus three additional fees that ensure the 504 program remains relatively taxpayer-neutral.

The effective 504 interest rate will vary each month in response to market pressures. The rate appearing on our web site is always the most recent rate INCLUSIVE of the following three fees.

- **Servicing Agent Fee = 0.100%**
This fee is paid to the servicing agent in New York who collects the loan payment from the borrower and remits it, en masse, to the institutional investor who purchased a specific debenture.
- **SBA Guaranty Fee = 0.9375%**
This fee is paid to the SBA on all 504 loans approved during the 2012 federal fiscal year. This fee may vary each year as a result of the annual budget process and is set to ensure that the 504 loan program remains relatively taxpayer neutral.

- CDC Servicing Fee = 1.000%
This fee is paid to PADD from loan payment proceeds after the SBA first withholds 0.125%. The remaining balance, 0.875%, compensates PADD for servicing actions associated with managing the loan on behalf of and in conjunction with the SBA. Statute allows a CDC servicing fee to up to 2.000%, but PADD will only ever charge 1.000%.

7. NON-REFUNDABLE APPLICATION / ORIGINATION FEE:

- CDC Application / Origination Fee = 1.5%
This fee is paid to the CDC for packaging your loan and preparing an extensive application for the SBA to review. The fee is paid by check to the PADD before the application is sent to SBA. This fee is non-refundable.

8. PREPAYMENTS OF 504 LOANS: Just as a 504 loan can only fund once a month, so too a borrower may only pay-off a 504 loan once a month, typically on the third Thursday of that month. This is a function of the particular bond instrument sold to finance 504 loans. Because of these timing issues, a borrower is encouraged to plan ahead and contact PADD at least 30+ days in advance of an anticipated pay-off date.

Another unique characteristic of the 504 bond is the early call or prepayment penalty that is attached to the 504 loan for half the life of that 504 loan. Borrowers accessing the program get a significantly lower interest rate if the debenture that is sold to raise the funds for their loan has a prepayment penalty.

As a result, borrowers looking to "fix-and-flip" or who anticipate paying off a 504 loan off within two years of funding may not find it an economically viable loan to consider. The premium associated with the early payment of a 504 loan is a function of two things: the debenture note rate (the underlying cost of funds associated with a 504 loan), and, the length of time since the loan was funded.

For purposes of illustration, the following prepayment premiums are associated with 504 loans that funded in October 2011. A unique prepayment schedule is provided to every borrower soon after their loan funds. This illustration assumes a 20 year 504 loan.

Prepayment Premium based on debenture not rate of 3.7200%	
Year 1	(100% x 3.7200) x outstanding principal on 504 loan)
Year 2	(90% x 3.7200) x outstanding principal on 504 loan)
Year 3	(80% x 3.7200) x outstanding principal on 504 loan)
Year 4	(70% x 3.7200) x outstanding principal on 504 loan)
Year 5	(60% x 3.7200) x outstanding principal on 504 loan)
Year 6	(50% x 3.7200) x outstanding principal on 504 loan)
Year 7	(40% x 3.7200) x outstanding principal on 504 loan)
Year 8	(30% x 3.7200) x outstanding principal on 504 loan)
Year 9	(20% x 3.7200) x outstanding principal on 504 loan)
Year 10	(10% x 3.7200) x outstanding principal on 504 loan)

There is no prepayment premium after year 10. Partial or additional payments may not be made under the 504 loan program (because the investors in the bond have no way of tracking or accounting for extra payments).

9. ELIGIBLE PROJECT COSTS: For the purposes of identifying and calculating the "total project cost" for a 504-eligible project, expenditures on the following are considered ELIGIBLE COSTS under the 504 loan program:

- Purchase of land and building(s);
- Building improvements and construction costs, including FF&E costs if these items are necessary and integral to operation of the business, and a minor part of the overall project;
- Related project expenditures, e.g. appraisal, engineering, architectural and / or any environmental reporting costs;
- Construction interest and any associated interim loan fees;
- Purchase of eligible machinery and equipment with a useful life of ten or more years;
- A "limited amount" of refinancing where this is defined by the amount of the new expansion project. As a general rule, for every \$2 in new eligible costs, the 504 loan program may refinance \$1 of existing eligible costs IF the financing will provide a "substantial benefit" to the borrower AND IF the borrower has been current on all payments for at least 12 months previous AND IF the refinancing will provide better terms or rates; and, new in 2011,
- Refinancing of a conventional loan two or more years old that has been current for the last 12 months, on real estate or fixed assets that would otherwise have been originally eligible for financing under the 504 loan program.

10. SPECIAL PROVISIONS FOR REFINANCING:

The ability of the 504 loan program to refinance or restructure existing debt, is a relatively new one. As noted above, there are two types of refinancing 504 loan programs available: one that allows a limited amount of refinancing in conjunction with a business expansion (a permanent addition to the 504 loan program); and, a program that allows for the standalone refinancing of existing conventional loans (a temporary addition to the 504 loan program).

For both programs, the SBA defines the eligible debt that can be refinanced as debt (one or more existing loans) where "substantially all" (= 85% or more) of the original proceeds of the indebtedness were used to acquire / improve / construct a building or purchase equipment (things that would have originally been eligible under the 504 loan program) and the remaining amount of the debt (= 15% or less) was incurred for the benefit of the small business seeking the financing. For both programs, the debt to be refinanced must have been current for the previous 12 months.

For the **expansion refinancing 504 program**, any amount of existing indebtedness that does not exceed 50% of the cost of the expansion, may be refinanced as long as a "substantial benefit" (= an improvement in cash flow of 10% or more) is evident. The expansion refinancing 504 program may be used to refinance existing 504 loans or existing SBA 7(a) loans under these guidelines, in certain circumstances.

For the **temporary standalone refinancing 504 program**, any conventional loan can be refinanced as long as the loan has been in place for at least two years prior to the date of application.

It is possible, when refinancing a conventional loan under the **temporary standalone refinancing 504 program**, for the business to secure additional funds over and above the amount of indebtedness, providing that these funds are or will be used for eligible business expenses such as salaries, rent, utilities, inventory or other obligations incurred but not paid prior to the date of application, or that will become due within eighteen months after the date of the loan application. Please note that the SBA will not consider improvements to an existing building eligible under this program but they will consider "maintenance" to the building (for example, a new roof or resurfaced parking lot) as eligible business expenses.

The structure of the **temporary standalone refinancing 504 program** allows the private sector lender to finance any share of the existing indebtedness plus eligible business expenses as long as the new private sector loan is no less than the 504 loan, and that the 504 loan is not more than 40% of the appraised value of the fixed asset(s) being refinanced.

The combination of the total private sector loan plus the 504 loan may not exceed 90% of the appraised value of the fixed asset(s) being refinanced. Existing SBA or USDA loans may NOT be refinanced under the **temporary standalone refinancing 504 program**.

11. MAXIMUM / MINIMUM LOAN AMOUNTS:

The maximum share of a total project that can be financed under the SBA 504 loan program is limited to **40%** of the total eligible project costs, up to a maximum dollar gross debenture amount (which equals the share of the project plus all associated fees built into the bond when it is sold on the market). This maximum dollar gross debenture amount is as follows:

Regular 504 loans, Standalone Refinancing 504 loans, Regular Refinancing + Expansion 504 loans	\$5,000,000
Projects involving Small Manufacturers (defined as a business with its primary NAICS Code in Sectors 31, 32, and 33, and all of its production facilities located within the United States).	\$5,500,000
Projects that reduce the Borrower's energy consumption by at least 10%.	\$5,500,000
Projects that increase the use of sustainable designs, including designs that reduce the use of greenhouse gas emitting fossil fuels or low-impact design to produce buildings that reduce the use of non-renewable resources and minimize environmental impact.	\$5,000,000
Projects involving plant, equipment and process upgrades of renewable energy sources such as the small-scale production of energy for individual buildings or communities' consumption, commonly known as micro power or renewable fuel producers including solar, wind, geothermal, biodiesel and ethanol producers.	\$5,500,000

The minimum dollar gross debenture 504 amount available is \$25,000.

In situations where a business applicant chooses to contribute more than the minimum 10% required for a multi-purpose / existing business expansion project, the additional contribution may reduce the partner private sector lender share, the 504 share or both providing that the 504 share of the financing project is NEVER a larger percentage of the total project than the partner private sector lender's share of the financing.

12. LOAN TERMS: 504 financing is provided through the sale of a monthly 20-year debenture. A bimonthly 10-year debenture is also available. Expansion projects *only* involving the purchase of machinery / equipment with a useful life of 10+ years, are financed with a 10-year debenture. Real estate projects may be financed using a 20 (typical) or 10-year debentures.

13. LEASING EXCESS SPACE POLICY: If an expansion project involves the acquisition of an existing building, a small business applicant(s) must occupy at least 51% of the total building space. 504 loan program proceeds may not be utilized to tenant-finish any portion of the building not being immediately occupied by that small business.

On an expansion project involving new construction, the small business applicant(s) must initially occupy 60% of the total building space, intend to occupy additional space within three years, and, reasonably expect to occupy at least 80% of the total building space within ten years.

No more than 20% of the total building space may be permanently leased out. As for an existing building project, 504 loan proceeds may not be utilized to tenant-finish any portion of the building not being initially occupied by the small business applicant(s).

14. ECONOMIC DEVELOPMENT OBJECTIVES: The overall objective of the 504 program is to assist small businesses to create wealth for themselves and their communities.

As indicators of this, PADD will consider how many "job opportunities" might reasonably be created or retained by a small business within two years of receiving 504 funds and / or whether a proposed project meets either a SBA Community Development or Public Policy Objective.

As a general guideline, CLS must demonstrate that as a result of a 504 loan, it is helping a small business to create or retain at least 1 job for every \$65,000 of project debenture financing (or per \$100,000 for Small Manufacturers).

SBA Community Development objectives include: improving, diversifying or stabilizing a local economy; stimulating other business development; bringing new income into an area; or, assisting businesses in labor surplus areas.

SBA Public Policy objectives include assisting businesses primarily owned by veterans, women, minorities, exporters, or, businesses located in rural communities or designated economic enterprise zones.

15. REAL ESTATE OWNERSHIP: An "Eligible Passive Concern" or EPC (a passive, single purpose real estate holding entity) and certain types of trusts are permitted to hold title to real estate and lease a project facility to an eligible small business Operating Company.

A copy of a **master lease** between the EPC and the eligible small business Operating Company will be required as part of documents collected prior to the disbursement of 504 loan proceeds. In these situations, although the borrower is a passive real estate holding company, the 504 loan is being made on the demonstrated strength of the active Operating Company, which must be either a co-borrower or guarantor on the loan.

If the building contains third party tenants other than the Operating Company, these third party tenants must sub lease their space(s) from the active Operating Company and not from the EPC.

16. "DO-IT-YOURSELF" CONSTRUCTION: Situations where the borrower is also the project contractor have generally proved to be an unsatisfactory arrangement on loans. However, "do-it-yourself" construction and / or the installation of machinery and equipment, or situations where the borrower acts as its own contractor, may be permitted as long as it is possible to justify and document the following:

- The borrower / contractor is experienced in the type of construction and has all appropriate licenses;
- The cost is the same as, or less than, what an unaffiliated contractor would charge as evidenced by two (2) independent bids on the work; and
- The borrower / contractor will not earn a profit on the construction.

17. SIZE ELIGIBILITY REQUIREMENTS: A small business applicant, together with its affiliates (*an affiliation occurs when one concern controls or has the power to control the other*), generally may not have a tangible net worth in excess of \$15 million, and, may not have an average net income after taxes in excess of \$5.0 million (two year average). Some exceptions are allowed to this general rule.

18. "EXCESS" PERSONAL LIQUIDITY TEST: If the individuals holding a 20% or more ownership interest in a business applicant(s), individually have "excessive" personal liquid assets, they may be asked to inject some of these liquid assets into a project before being eligible to participate in the 504 program.

As a general rule, on, for example, a \$1,000,000 financing project, if any 20%+ owner individually has more than \$1,000,000 in available cash plus publicly traded shares or bonds (i.e. securities easily converted to cash), they will be asked to inject the excess amount into the project and reduce the 504 loan portion accordingly.

19. PERSONAL / CORPORATE GUARANTEES: Personal guarantees are required from EVERY person or entity owning 20% or more of an eligible small business applicant(s) or any EPC owning any of the project real estate, machinery or equipment.

A personal guarantor is required on EVERY 504 loan, even if no one owns more than 20%.

20. LIFE INSURANCE: If the on-going viability of a business is dependent on an individual owner or employee(s), the SBA may require, as a condition of approval, an acknowledged collateral assignment of key-person life insurance on the owner(s) of the business applicant(s) to the extent of the 504 loan amount.

21. 504 LOANS MAY BE ASSUMED: All 504 loans are fully assumable. Applicants will still need to be qualified and the SBA assesses a 1.0% fee on the outstanding indebtedness for all assumption actions.

22. PRIOR BANKRUPTCIES: Full disclosure of prior bankruptcies is required. PADD reserves the right to withhold approval of applications where a business or its principals have taken prior bankruptcy protection from creditors.

23. PRIOR CRIMINAL OFFENSES / ARRESTS: A prior criminal arrest or conviction will not necessarily disqualify an individual from receiving financing under the 504 loan program. However, full disclosure is required.

If any individual positively answers questions 7, 8 or 9 on the included SBA Statement of Personal History form, that individual will be required to submit an affidavit explaining the specific details and the reason for the positive answer(s) along with a statement that "*no occurrences have since taken place.*"

Copies of all relevant court documentation relating to the event(s) will also need to be provided.

In certain circumstances, particularly where two or more misdemeanor offences have been recorded within the last ten years, or where any past felony convictions are present, an SBA fingerprint card will also need to be completed and submitted.

The SBA's Statement of Personal History form MUST be completed by all proprietors, general partners, officers, directors, managing members of any LLC, owners of 20% or more equity in any applicant businesses AND any person / key employee hired by the applicant business to manage day-to-day operations. The determination of who is or isn't a key employee is made on a case-by-case basis but generally:

- Someone managing a shift in a retail store is usually not considered a key employee;
- A chef in a restaurant is usually not considered a key employee;
- Someone who performs maintenance on the fixtures of a business is usually not considered a key employee;
- Someone who manages a business for a short period of time in an owner's absence is usually not considered a key employee;
- The senior mechanic at a repair shop is usually not considered a key employee.

This list is not meant to be comprehensive.

24. LEGAL PERMANENT RESIDENTS: 504 loans are available to businesses owned by persons who are not citizens of the United States; however, the processing procedures, terms and conditions may vary, depending upon the residency status assigned by the US Citizen and Immigration Service division of Homeland Security.

Because fraudulent immigration documents are a serious problem, the status of each Legal Permanent Resident must be verified by PADD as part of the loan application process. Accordingly, applicants seeking 504 financing who are not citizens of the United States must provide: (a) a legible copy of DOCUMENTATION (front and back) evidencing resident status, and, (b) a PERMISSION LETTER, signed and dated, which includes the statement "*I authorize the US Citizen and Immigration Service to release information regarding my immigration status to PADD.*"

25. ILLEGAL ALIENS: 504 loans are not available to businesses that willfully and knowingly hire illegal aliens.

26. CHILD SUPPORT COMPLIANCE: No principal who owns at least 50% of the ownership or voting interest in a company applying for financing under the 504 program, may be delinquent more than 60 days under the terms of any (1) administrative order, (2) court order, or (3) repayment agreement that requires payment of child support. A certification of compliance will be required before any funds will be disbursed under the 504 loan program.

27. ENVIRONMENTAL REPORT: Prior to the final disbursement of funds, evidence must be provided that a project property is free and clear of environmental hazards.

Either a Records Search Risk Assessment report plus an environmental questionnaire completed by the seller, a Transactional Screening Analysis (TSA), a Phase I or a Phase II report may be required. Any TSA, Phase I or Phase II reports must be accompanied by a reliance certification provided by the environmental company using a standardized SBA form.

All reports should name the U.S. Small Business Administration / Purchase Area Development District, Inc., in addition to the bank lender.

28. APPRAISAL: An appraisal will be required on all projects involving the purchase, improvement or construction of real estate. All appraisals must be ordered by the participating partner lender, performed by a state-certified appraiser and must name the U.S. Small Business Administration / Purchase Area Development District, Inc., in addition to the bank lender.

29. FLOOD / EARTHQUAKE HAZARDS: Flood insurance must be purchased if any building or equipment acquired, installed, improved or constructed with loan proceeds is located in a special flood hazard area. Newly constructed facilities must be constructed to conform with the National Earthquake Hazards Reduction Program.

30. APPROVAL PROCESS: Once all documents have been submitted to PADD, the application approval process may take from two to four weeks to generate a formal approval.

31. INTERIM / CONSTRUCTION FINANCING: Due to the nature of 504 loans, interim or construction financing is typically required and provided by a private sector lender to cover the period of time between the approval of a financing application and the sale of a debenture in New York to fund the 504 share of the financing project.

32. TIMING ON FUNDING OF 504 DEBENTURES: Once all the necessary SBA loan documents have been executed, there is a minimum six week period until a SBA loan is actually funded. 504 debentures are only sold once each month (*usually on the Wednesday after the second Sunday*). Funds received from this sale are wire-transferred directly to the participating partner lending institution on the same day the debenture funds.

33. METHOD OF 504 LOAN PAYMENTS: Monthly loan payments on the 504 portion of a financing project must be made by an automatic electronic transfer (= *ACH debit*) from a bank account designated by the small business borrower. Payments are due on the first working day of each month, beginning the month immediately following the actual sale of a debenture.

General Considerations

34. EQUAL CREDIT OPPORTUNITY: PADD is an equal credit opportunity lender and does not discriminate on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract), handicap, because all or part of the applicant's income derives from any public assistance program, or, because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

35. IDENTIFICATION PROCEDURES: To help the government fight the funding of terrorism and money laundering activities, federal law requires PADD to obtain, verify and record information that identifies each person who applies for a loan.

This means we will ask for a name, address, date of birth and other information. We will also ask for a copy of a driver's license or other identifying document.

36. NO ADDITIONAL PROVISIONS: An applicant(s) will indemnify and hold PADD and / or its agents harmless from any and all loss or injury, including reasonable attorney fees, resulting or arising from failure by the applicant to receive such loan and / or any loss or liability to applicants or the business of the applicant.

All parties agree that there are no other promises, terms or agreements (oral or written) between PADD and that program rules and fees are subject to change at any time.

37. FINANCIAL PRIVACY: PADD commits to protecting any and all personal information provided in conjunction with a loan application, and also commits to collect and disclose this information only as allowed by law.

PADD is required to secure a credit bureau report on all applicants applying for assistance under PADD-administered loan programs, and a signature below acknowledges this requirement PADD is dedicated to security procedures designed to protect all personal information. PADD maintains physical, electronic and procedural safeguards that exceed federal standards to guard personal information.

PADD does not sell, trade or barter personal information to anyone.

The undersigned acknowledges that he / she understands the provisions described within this Disclosure Statement as they apply to an application for consideration under the 504 loan program accessed through PADD.

Company: _____
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