Purchase Area Development District

Lenders Guide

SBA 504 Loan Program

Navigating the SBA Loan Process

Whether this is your first experience with the SBA 504, or you've successfully completed numerours loans, we hope you find this document helpful in navigating the process. Our primary goal is to answer the quetion we hear so often, "What is the lender's role in this process?".

The 504 Loan Process

Phase 1
Applicant applies for bank loan and 504 loan - receives approval from bank, PADD, and SBA

Phase 2
Bank funds the interim loan (bank portion and 504 portion), PADD prepares loan for funding

Phase 3
504 loan is closed, debenture is sold and wire transfer is sent to bank for pay-down

Phase 4
Loan repayment begins. The borrower has two permament mortgages

PHASE 1

Eligibility

The first step is to determin if your project is eligible for the 504 loan program. For a quick reference, use the for questions at the right or contact PADD directly

Application

It is helpful to bring a PADD Lending Specialist in for an early joint meeting with your client to go over the 504 program, ensure eligibility and assist with the application process

Approvals

1. Your bank approves the loan
2. PADD approves the loan for submission to the SBA
3. SBA approves the loan and issues a terms and conditions letter

Will Your Project Qualify

If you answer "yes" to the following questions, your project will likely qualify for the 504 program:

- Will the project finance fixed assets such as building construction, the purchase of an existing builiding and/or long-term equipment?
- Is the business for-profit and located in the United States?
- Does the business, including affiliates, have a tangible net worth of less than $20 million and after-tax profits, averaged over the last two years, of less than $6.5 million?
- Will the business occupy at least 51% of the project property for existing buildings or 60% of the project property for new construction? Or, will the equipment be used for business operations?

APPLICATION CHECKLIST

Company Information

- Corporate tax returns for business and affiliates (3 years)
- Interim financial statements for business and affiliates (within 90 days)
- Debt schedule
- Most recent aging of accounts receivable and payable
- Two-year projection of income and expenses with assumptions
- Franchise agreement (if applicable)
- Business plan with projections (startups)

Owner Information

- Owners personal financial statement
- Owners last 3 years income taxes with all schedules
- Personal data sheet or resume
- Copy of drivers license

Other Information

- Detail breakdown of project costs
- Purchase agreements
- Construction quotes/bids
- Equipment quotes/bids
- Appraisal/Environmental Reports

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PHASE 2

Loan Terms and Conditions

Upon receiving approval from the SBA, read through the entire Terms and Conditions document, as it sets forth the terms and conditions under which SBA approved a guaranty on the loan. It also outlines servicing activities and loan compliance requirements for the term of the loan.

Third Party Lender Fee

SBA requires a one-time participating lender fee equal to 0.5% of the amount of the lenders permament loan. This fee can be collected from the borrower as a bank fee.

Borrower Fees

The SBA will charge the borrower the following fees which are rolled into their loan and included in the borrowers monthly payment to the SBA

- SBA Guarantee Fee: 0.5% of the loan's total value
- Funding Fee: 0.25% of the loan's total
- CDC Processing Fee: 1.5% of the loan's total
- Closing Costs: Variable depending on the loan amount
- Underwriter's Fee: Calculated based on the gross debenture amount
- Servicing Fees: Based on the declining balance of the loan
- Prepayment Premiums: Based on the principal balance of the loan and the interest rate

Shortly after receiving approval from the SBA, expect a call from the PADD Lending Specialist that has been working with you on the 504 loan. They will go over the time-lines and checklists and explain the closing/funding process.

Preliminary Closing Checklist

Your Business Lending Specialist will provide a complete, project-specific checklist of items necessary for the closing of your loan but the following will be required.

- Appraisal*
- Appraisal Completion Certificate
- Title Work
- Interim Note and Mortgage (mortgage must be recorded)
- Other Security Documents/UCC's (must be recorded)
- Organizational Documents
- LIfe Insurance Policy Assignment (if required)*
- Settlement Statement
- Sworn Contractor's Statement
- Borrower's Equity Injection
- Equipment/Fixtures List and Cost Docs
- Occupancy Certificate
- Lease
- Updated Financials
- Insurange Agent Contact Info
- Environmental Report

SBA and PADD must be listed as intended users

PHASE 3

Interest Rate

The interest rate on 504 loans is determined at the time the 504 debenture pool is sold on the private market and is based on current market conditions, which fluctuate. This typically happens 6 weeks after the project is complete. All SBA 504 loans are funded using the same market sale process, so interest rates in any given month ar the same nationwide...regardless of CDC

Ongoing Fees

As mentioned above, when the 504 loan is funded, the borrower will incur fees totaling approximately 2.65% of the 504 portion of the financing and a mixed legal fee up to $10,000. However, these fees are included in the principal amount adn financed over the term of the loan (i.e. they are NOT out of pocket expenses). SBA's loan fees are determined by SBA and are needed to cover the cost of administering the 504 Loan Program.

PHASE 4

Payments on 504 Loans

At closing, documents are signed authorizing an automatic deduction of the loan payment from the borrower's bank account (ACH). Wells Fargo will make the deduction on the first business day of every month. The payment date cannot be changed. ACH is required and not optional.

Annual Servicing Requirements

- Evidence of insurance: Hazard, Life, etc.
- Annual business tax returns and/or signed financial statements
- When the loan reaches its 2-year anniversary, PADD will need current information on the number of employees at the borrowers company
- PADD will conduct a site visit annually

Key Points for Lenders

- The bank provides the intermin financing until the deed is recorded
- Bank gets first lien on all project assets
- Bank's loan cannot be cross collateralized with any existing debts
- Advance is up to 90% of the appraised value on the real estate
- Economic life of the asset to be financed needs to meet or exceed the loan term.
- Size Standards: the business must have a tangible net worth of less than $15 million and profits (after taxes) of less than $5 million (including affiliates).

Contact Us:

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SBA 504 Loan Process

01 Application



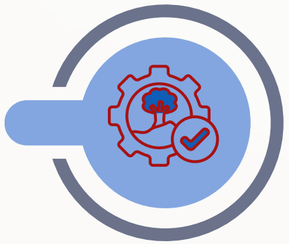
- Loan Application & documention gathering
- Can start with bank or PADD
- Depends upon borrowers ability to provide documentation in a timely manner
- Receive loan approval from bank (2-3 weeks)
- Submit loan application to SBA (5-10 Business Days)

02 Appraisal



- Ordered by bank after internal approval
- Approximately 3-4 weeks to receive from appraiser
- Submit to SBA for approval (5-10 days)

03 Environmental Review



- Ordered by bank after internal approval
- Approximately 3-4 weeks to receive
- Submit to SBA for approval (5-10 days)

04 Interim Period/Construction



- Bank Closes on land/building to begin construction
- Bank manages draws and construction process
- SBA allows up to 24 months for loan to be fully disbursed

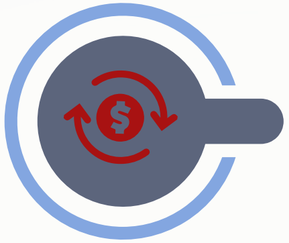
U.S. Small Business Administration

SBA Closing 05



- After construction is complete
- Borrower receives certificate of occupancy
- Bank loan proceed are fully disbursed
- CDC submits request for debenture sale

Funding the Debenture 06



- Approximately 45-60 days after SBA closing
- CDC receives notice by email and sends fnal not to borrower with amortization schedule and pre-payment schedule
- Pay off is sent to bank

Permament Loan 07



- Borrower has 2 permament loans in place with 2 separate loan payments
- SBA note is auto-debited
- CDC servics note for the life of the loan

Annual Reporting 08



- CDC services the loan on an annual basis, including site visits, tax return collection, risk ratings,







THE SBA 504 Refinance With Expansion Program

An SBA 504 loan can be used to refinance debt previously incurred for commercial real estate and fixed-asset projects at below-market rates. With the SBA 504 loan refinance program, you can not only refinance debt but also cash out up to 20% of the value of the property for working capital needs. You can refinance up to 100% of eligible expenses for a prior fixed-asset project at below-market rates with a term of up to 25 years.

Loan Structure:

Here's how a typical SBA 504 loan refinance program works:

- A bank refinances 50% of project costs with a traditional loan
- PADD refinances up to 40% of project costs using the 504 loan program
- An "as is" fair market value appraisal will need to demonstrate over 10% equity in the property with the proposed financing.

Program Highlights:

- Up to 90% commercial financing at below-market, fixed interest rates
- Low down payment (usually 10%) preserves working capital
- Long amortization terms (up to 20 years on real estate and 10 years on equipment)

"Qualified Debt" Eligible for Refinancing

- Substantially all (85% or more) of the proceeds from the existing debt was used to acquire an Eligible Fixed Asset and (15% or less) was incurred for the benefit of the small business (example, working capital).
- If the Eligible Fixed Asset(s) have been originally financed through a commercial loan and has been refinanced one or more times.
- Debt was incurred no less than 6 months from the date of application
- Has been secured by the Eligible Fixed Asset(s) for at least 6 months
- Businesses may use SBA 504 refinance loan to repay an existing government guaranteed loan (including SBA/USDA, etc.).

Expansion:

- If the Project involves expansion of an Applicant, any amount of existing indebtedness that does not exceed 100% of the cost of the expansion may be refinanced. The debt being refinanced will be added to the expansion cost to establish the total project costs, if all the conditions discussed below are met. A "Project involves Expansion" if it involves the acquisition, construction, or improvement of land, building or equipment for use by the Applicant

Eligibility:

- Debt being refinanced incurred (seasoned) no less than 6 months prior to application
- Refinance must show a "substantial benefit"....meaning that the refinance must show at least a 10% improvement over the current installment payment
- The borrower must have been in operation for all of the 2-year period ending on the date of the application
- SBA loan amounts up to $5 million dollars

Eligible Fixed Assets

- Land
- Buildings
- Machinery
- Equipment

Acquired, constructed, or improved by the small business for use in its business operations

Eligible Business Expenses

- Accrued expenses such as salaries, rent, utilities, inventor and other expenses that are not capital expenditures and are due in 18 months.
- Business lines of credit/credit card debt in the name of the small business

Collateral Guidelines

Up to 90% of Fair Market, "as is", value of the Eligible Fixed Asset(s) and

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Purchase Area Development District

SBA 504 Debt Refinancing Checklist:

Current debt & lien/security instruments. Provide copies of note, recorded mortgage, security agreement, UCC's, settlement statements, and any other collateral documentation securing the existing debt.

If loan was refinanced, obtain copies of original loan documents (note, mortgage, security agreement, UCC's, settlement statement, etc).

Original cost documents –Documentation to prove substantially all (85% or more) of the proceeds of the original loan being refinanced must have been used for 504 eligible purposes; real estate purchase/ improvement or long term equipment.

The small business must currently occupy at least 51% of the property.

12-month payment transcript. Transcript should include bank name, borrower name, date payment is due, date payment is posted, amount of payment, original balance, remaining balance, late fees, etc.

Current payoff statement.

Appraisal/valuation – appraisal may be submitted after approval.

Two most recent years of Business and Personal Tax Returns (principals owning 20% or more).

Interim Financial Statements within 90 days of application, including Balance sheet, income statement, A/R & A/P aging reports and debt schedule.

Appraisal is not required at the time of application. Appraisal must be dated within one year of application.

LTV max is 90% on non cash out refinance projects. (SBA must be listed as intended users.) .

Small business concern must have been in business for two years prior to the submission of the application.