Purchase Area Development District

SBA 504

U.S. Small Business Administration

SBA 504 Loan Program

Financing Fixed Assets for Small Business Growth



Purchase Area Development District

What Is 504

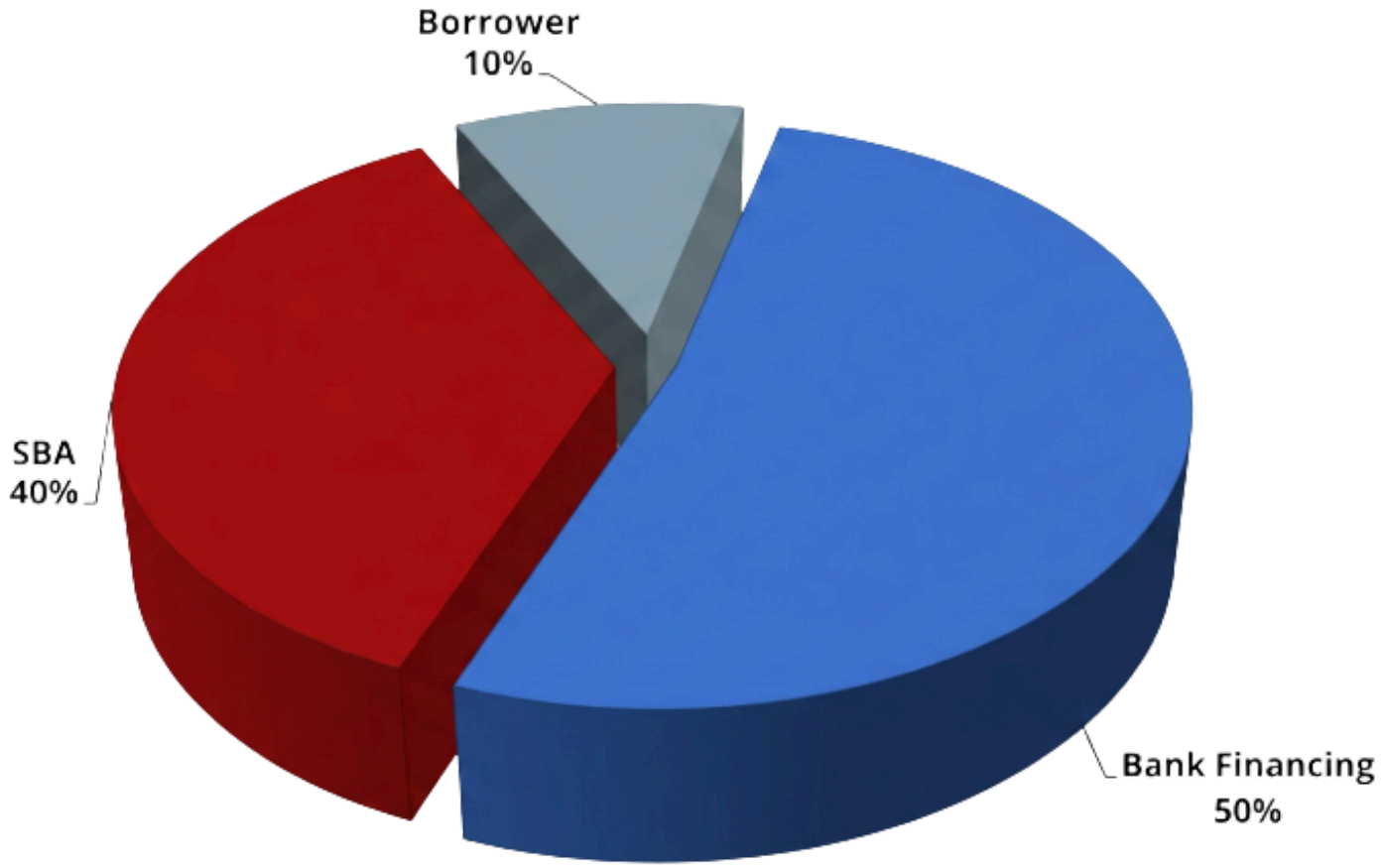
Economic Development Financing Tool For Fixed Assets



- Commercial Real Estate
- Machinery and Equipment
- Refinance Debt

Purchase Area Development District

Typical 504 Structure



Example Project Cost $1,000,000

$500,000 Bank Loan
$400,000 SBA 504 Loan
$100,000 Borrower Cash/Equity Injection

Purchase Area Development District

The 504 Process

Navigating the SBA Loan 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 determine 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
A PADD Business Lending representative consults with borrower and bank to go over the 504 program, ensure eligibility and assist with the application process

Will The 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

PHASE 2

Loan Terms and Conditions

Upon receivingapproval fromthe 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-timeparticipating 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 LendingSpecialist 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 interestrate 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

Atclosing, documents aresigned 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