

SUMMARY OF CCD'S SBA 504 LOAN PROGRAM

Subject to SBA 504 loan funds availability, private business firms can acquire fixed assets with funds provided by a combination of a private lender and SBA/CCD Business Development Corporation.

Not more than \$50,000 of the SBA 504 loan funds should be planned for each new job projected to be created or saved in the business acquisition, start-up or expansion. Project needs to meet job creation or Public Policy goals. The SBA 504 loan project is limited to those assets to be acquired with the funds to be borrowed.

To be eligible for financial assistance, the principals in any business applying for an SBA 504 loan must have experience in the type of business SBA/CCD is being asked to finance. That experience must be acquired through operation of a similar business either as an owner or in a management position.

A SBA 504 loan may be a subordinated loan, with a private lender, SBA/CCD and the borrower providing the necessary funds, subject to approval from SBA. The participation is typically arranged as follows:

1. **A financial institution generally must provide at least 50% of fixed asset financing, setting its own interest rate.** The private lender may hold first lien position on all collateral, but its loan must be for a term of at least ten (10) years (including options), and is not guaranteed by SBA. Private lenders can include banks, other financial institutions, or individuals such as the seller of the asset(s) being financed.
2. **A maximum of 40% of the fixed asset costs may be provided through SBA/CCD with SBA's approval.** SBA is a subordinate lender, which allows the bank or participating lender a first position on all assets.
3. **The remaining percentage (minimum of 10% of eligible costs) is provided by the borrower-applicant.** Eligible borrowers are any private commercial firm meeting SBA size requirements, such as: Net Worth less than \$7.5 million; net after-tax profits less than \$2.5 million. There are separate size requirements for manufacturers based on the number of employees and the industry type.

NOTE: In cases where the business is "new" or the building is "limited or single purpose," the borrower's injection must now be at least 15%. If the project is both new and single purpose, the injection jumps to 20%. The maximum 504 debenture drops to 35% or 30%, respectively, and the first mortgage lender must provide 50% financing.

Manufactures, destination resorts and other basic industries may in many cases borrow their 10% requirement from established revolving business loan funds.

Ineligible as SBA 504 Borrowers are the following:

- a. Investors not using the assets financed.
- b. Non-profit organizations.
- c. Print media such as newspapers and magazines.
- d. Lending businesses, such as banks and finance companies.
- e. Gambling facilities.
- f. Recreation facilities not open to the public.
- g. A firm with a tangible negative net worth (liabilities in excess of tangible assets); also see item No. 3 below regarding debt/equity ratios.

The rate and terms on the SBA/CCD portion of the loan project are as follows:

1. The minimum amount of SBA/CCD participation is \$250,000; the maximum amount is \$1,500,000 (\$2,000,000 if the loan meets a public policy goal) or (\$4,000,000 if the loan is to a “small manufacturer”). The private lender may employ a first security position, with SBA/CCD taking a second position. This may allow the private lender to advance a greater percentage of large project costs.
2. SBA 504 loan fees and reserves are deducted from the loan amount.
3. Borrower’s projected debt/equity ratio may not exceed 4 or 5:1 after injection of SBA/CCD loan funds.
4. The term of the loan is 10 or 20 years. Ten years is the maximum loan for machinery and equipment.
5. Borrower’s note rates depend on money market conditions at the time of funding. They are set at the current rate on bond sales of comparable maturity through the federal financed bank, plus loan servicing fees on the outstanding balance. CCD receives 1.5% of the outstanding loan balance as a loan processing fee. CCD requires a deposit of 1% of the net debenture amount at the time the Loan Assistance Agreement is signed. This deposit is non-refundable if the SBA approves the loan.
6. Once set, rates and payment amount on the SBA 504 loan remain fixed for the term of the loan.
7. Fees, costs and expenses of obtaining a SBA 504 loan are approximately 3% of the net debenture. The Borrower is responsible for paying these fees, costs and expenses and while many are financed as part of the loan, the Borrower may have to advance some of these expenses to close the loan.

A completed application includes a letter of commitment from the first mortgage lender. Approximate processing time is as follows after CCD has accepted a completed loan application:

1. CCD Board loan approval: Normally 2-3 weeks following receipt of a **completed loan application**.
2. SBA loan approval and Loan Authorization: 2-6 weeks after receipt of package with CCD approval.

Note: **No expenditure** is to be made for what are presumed to be “eligible project cost” **without** either; a) prior notification to CCD in writing, or b) prior loan approval by SBA.

3. Loan closing and SBA review: 6-10 weeks after completion of project construction or acquisition.
Note: All expenditures **must be documented by invoices** actually paid on total project cost.

Note: **Interim loans** on the SBA portion are often necessary for projects, which include prolonged construction or installation. Interim loans are recommended on **all** loan transactions because review of documentation may not be completed in time for the monthly disbursements. SBA’s approval and commitment letter are binding until revoked and provide for disbursement directly to the interim lender. SBA/CCD will not disburse until project construction or acquisition is completed. In the event of project construction, an ALTA title policy must be issued prior to closing. All cost overruns are the responsibility of the borrower.

4. Repayment: Begins on the first day of month following funding and is an **automatic debit** from the borrower’s designated account.