

SBA 504 – SMALL BUSINESS EXPANSION LOANS



Why SBA 504 Loans Make Sense for Savvy Lenders!

When a business customer arrives looking for a loan to purchase real estate, machinery or equipment but the company doesn't have the usual 20-30% equity for the project, ***don't turn your customer away!***

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SBA 504 Loans**

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You can still do the deal with the help of an SBA 504 loan. Projects can be funded with as little as 10% equity injection from the borrower.

The SBA 504 Loan Program offers affordable financing for the borrower and significant benefits for the lender. Plus, most of your small business clients qualify.



DON'T TURN DOWN BUSINESS!

If you have an on-going relationship with a business borrower and the project makes sense but there are lending limits to consider, **or** perhaps a credit enhancement is required to get the loan past your committee, **or** the customer only wants to pledge the asset being financed, then consider the **SBA 504 loan**. When you need to manage liquidity, SBA 504 loans allow the bank to advance only 50% of a project cost. This 50% can be liquid if needed – providing excellent flexibility for managing your balance sheet!

SBA 504 loans finance up to 40% of eligible project costs and the participating bank provides a first mortgage loan that is typically for 50% of the project and has first lien position on the asset being financed. The bank loan has a minimum 10-year term on real estate or a 7-year term on machinery and equipment, but you set the interest rate and fees and you establish the covenants. The bank also provides the interim financing or a bridge loan for the construction phase of the project.

GREAT BENEFITS FOR BANKS

Mitigation of credit risk Lenders have first lien position and typically a 50% loan-to-value ratio, minimizing collateral risk. The SBA can realize on its collateral only if the lender is paid in full.

Management of Overall Lending Limits and Industry Exposure With 504, smaller banks can entertain larger projects. Even larger banks can limit their exposure to certain industries and/or to a particular borrower. The reduction of CRE loan concentration on your balance sheet reduces regulatory concerns.

Can Assist More Customers Leverages lending capacity across more borrowers and diversifies default risk and reduces loss in the event of default.

Gain New Customers SBA 504 loans are designed to finance growth companies, and an entrepreneur who is investing in a permanent facility is often entering into his largest business-related loan. An SBA 504 loan often becomes the basis of an entire banking relationship.

Active Secondary Market There is an active secondary market for 504 first mortgage loans, so banks can reduce their exposure to zero and enhance their non-interest income while retaining the customer's primary banking relationship.

Strengthening of Core Earnings Pricing of the bank's loan is at its discretion. 90% financing also means that more of the customer's funds remain on deposit. The bank is able to earn fees and interest on the interim loan, and generate fee income from sale premiums and loan fees if it chooses to sell the first mortgage loan in the secondary market.

CRA Credit Banks that participate in SBA 504 loans are eligible for Community Reinvestment Act (CRA) credit on certain projects.

Owners of the Comstock Large Animal Hospital during construction of their new facility in Reno, NV. SBA 504 loan provided by Nevada State Development Corp., Reno, NV.

Jake Armour Photography in Minneapolis, MN. Owners Jake and Hope Armour in front of their new building. SBA 504 loan provided by SPEDCO, New Brighton, MN.

IT'S EASY!

We want to dispel any lingering misconception that an SBA loan is slow and more work than conventional financing. The SBA has been streamlining the loan application, approval and closing processes with great success. There is **no excess paperwork**, approvals are fast with no inconvenience for the borrower. CDCs do much of the work for both you and the borrower.

"We need to educate the lender on the ease of the program. We have to get the word out that it's EASY!"

James Weiss, V.P., Fifth Third Bank



504: GROWING SMALL BUSINESSES, JOBS, COMMUNITIES

GREAT BENEFITS FOR BORROWERS

With SBA 504 financing, entrepreneurs can purchase commercial real estate with a down payment as low as 10%. The small business owner not only gets the tax benefits and appreciation on the real estate, but also locks in occupancy costs for the long term with financing tailored to the entrepreneur's needs.

Low Down Payment & Enhanced Cash Flow With financing available for up to 90% of the project cost, SBA 504 loans offer an affordable down payment, enabling the entrepreneur to conserve working capital and retain liquidity to meet operating needs.

Long Term Financing at Competitive Interest Rates SBA 504 real estate financing is 20-year, fully amortized financing. This enables a small business owner to pay for a facility over the long term, avoid risky loan call provisions and enjoy lower monthly payments. For current interest rates, visit www.nadco.org and click on **SBA 504 Interest Rates**.

Predictable Monthly Payments SBA 504 financing allows small business owners to fix their business occupancy costs with an attractive, 20-year, fixed interest rate.

Ownership Options Tailored to Meet Small Business Owner Needs An entrepreneur can purchase and hold title to a building personally, in the name of the business or even set up a holding company for the real estate. This gives the small business owner the flexibility to maximize tax benefits of ownership and minimize liability in the manner best suited for the entrepreneur and his company. Additionally, two or more small businesses can receive an SBA 504 loan if they combine to create a real estate holding company. *For instance, this option works especially well for professionals in the medical, veterinary, legal and accounting fields.*

HOW IT WORKS

Working with a lender, the CDC provides up to 40% of the financing for commercial real estate purchase and new construction with an SBA 504 loan. A lender must partner with the CDC to typically provide 50% of the financing, while the entrepreneur ends up paying as little as 10% down.

The CDC works with the small business borrower to process, approve, close and service the SBA 504 loan. Funding is provided by the CDC issuing a 10- or 20-year debenture bond that is sold to investors. Debenture bonds are attractive to investors since they are backed by the SBA and fully guaranteed by the U.S. Treasury.

HOW BIG IS THE PROJECT?

Most growing businesses are adding staff as they expand and look for larger facilities. This is when the SBA 504 loan is the perfect choice for financing. SBA 504 loan size is linked to job creation. A small business owner must create and/or retain jobs OR meet a public policy or community development goal (i.e. minority, veteran or women-owned business) to qualify for an SBA 504 loan. In general, an entrepreneur can borrow \$65,000 in SBA 504 loan funding for each job created and/or retained within two years.

There is no limit to the total project cost, however, a CDC can lend you up to 40% of the project cost with a dollar cap of **\$1,500,000** depending on the type of project. CDCs can go as high as **\$2,000,000** of SBA 504 financing for public policy or community development projects* and up to **\$4,000,000** for eligible manufacturing projects and for projects that incorporate energy saving technologies for sustainable design.



Owners of Seafood Connection, Inc. in San Jose, CA. SBA 504 loan provided by Bay Area Development Co., Walnut Creek, CA.



Staff in front of their new building at Anderson Engineering, Plymouth, MN. SBA 504 loan provided by SPEDCO, New Brighton, MN.



Owner of Knowlwood Restaurants in Irvine, CA. SBA 504 loan provided by Southland EDC, Santa Ana, CA.

PERFECT FINANCING FOR YOUR SMALL BUSINESS CLIENTS



New building for All About Smiles dental offices in Durant, OK. SBA 504 loan provided by REI, Durant, OK.

LOAN STRUCTURE

A bank or other lender typically finances 50% of the project cost and takes a first mortgage (lien) position on the assets financed. The first mortgage lender provides a commercial loan at current market rates and fees for their share of the project. The lender also provides the construction (also known as a bridge or interim) loan that is paid off from the proceeds of the SBA 504 loan. The CDC finances up to 40% of the project cost and takes a second mortgage position, while the small business owner provides a down payment that can be as low as 10%*.

ELIGIBILITY

Most small businesses qualify.

The business must be operating a for-profit business, organized as a corporation, sole proprietorship, partnership, LLC, etc., located in the U.S. that, with affiliates, has a tangible net worth of less than \$8.5 million and profit after taxes of less than \$3 million.

Also, the business must occupy at least 51% of its property for existing buildings or 60% of a newly constructed building. Two or more unrelated small businesses can receive an SBA 504 loan if they combine to meet occupancy requirements.

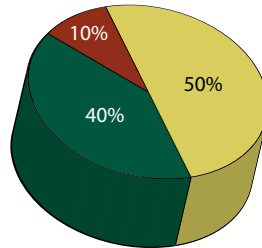
SBA 504 loans can NOT be used for working capital, mortgage broker fees, bridge or interim loan during the construction period, business inventory or rolling stock (i.e. vehicles).

A business is ineligible if it is owned by persons who do not have permanent legal resident status, or if the business has restrictions on patronage, is government-owned, is a consumer or marketing cooperative, is engaged in loan packaging, has previously defaulted on a federal loan, is engaged in political or lobbying activities, or is a speculative business.

EXAMPLE OF FINANCING ON A TYPICAL \$1 MILLION PROJECT:

COST FOR PROJECT:

Acquisition of Building	\$800,000
Renovations	\$180,000
Soft Costs (i.e. appraisal, architects fees, closing costs)	\$20,000
TOTAL:	\$1,000,000**



PROJECT FINANCING:

ENTITY	LOAN AMOUNT	% OF PROJECT	SECURITY
Bank (Other lender)	\$500,000	50%	1st Lien
CDC/SBA 504 loan	\$400,000	40%	2nd Lien
Borrower down payment	\$100,000	10%*	
TOTAL:	\$1,000,000**	100%	

**An additional 5% down payment is required for certain projects like special purpose buildings (i.e. car wash, hotel) or for start up businesses. For both a new business and a special purpose building, the down payment is 20%.

CDCs: Growing Small Businesses, Jobs, Communities



For more information, visit www.nadco.org

COVER PHOTOS:

- Left: Owners of the new East Charleston Animal Hospital in Las Vegas, NV. SBA 504 loan provided by Nevada State Development Corp., Reno, NV.
- Middle: Construction of the new building for the law firm of Laxalt & Nomura in Reno, NV. SBA 504 loan provided by Nevada State Development Corp., Reno, NV.
- Right: Owner of Ashtae Products, Greensboro, NC. SBA 504 loan provided by Self-Help Ventures Fund, Durham, NC.