

SBA 504 Loan Project Example

Oregon Business Development Corporation

The Basics

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| <ul style="list-style-type: none"> • The program provides long-term fixed-rate financing by using an SBA 504 2nd mortgage with a bank 1st mortgage • SBA rate is usually below market • The typical borrower is renting, but wants to own company real estate | <ul style="list-style-type: none"> • Oregon Business Development funds the 2nd mortgage as take-out financing • 60% owner-occupied for new construction, 51% for existing building • Any bank can do SBA 504 loans, and there is no SBA paperwork for the bank |
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Typical Structure

| <u>Sources</u> | | <u>Uses</u> | |
|----------------------------------|--------------------|---------------------------|--------------------|
| Bank 1 st mortgage | \$1,000,000 | Purchase R/E | \$1,960,000 |
| SBA 504 2 nd mortgage | 800,000 | Appraisal & environmental | 8,000 |
| Borrower cash | <u>200,000</u> | Fees & closing (estimate) | <u>32,000</u> |
| Total financing package | <u>\$2,000,000</u> | Total uses | <u>\$2,000,000</u> |

Loan Term: Bank – Typically 20 to 30-year amortization, 10-year maturity minimum
SBA 504 portion – 20 year amortization, 20-year term

Interim Loan: Bank funds permanent 1st mortgage
Bank funds bridge loan for 2nd mortgage until SBA 504 bond is funded

Collateral: Bank has 1st trust deed, typically at 50% LTV
SBA 504 has 2nd trust deed, total LTV 90% (higher in some cases)

Can SBA 504 Work for Your Project?

| <u>What to look for</u> | <u>What to avoid</u> |
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| <ul style="list-style-type: none"> • Pre-project debt-to-worth must be reasonable • Prior year debt coverage typically at least 1.2 • Lower down payment to conserve the company's working capital • Positive sales & cash flow trends • Experienced management • For start-ups and/or special use, down payment may be as high as 20% | <ul style="list-style-type: none"> • Non-owner-occupied commercial real estate projects are not eligible • Residential developments or apartment projects are not eligible • Businesses that are over-leveraged • SBA 504 can't be used for the "goodwill" portion of a business acquisition, only real estate/equipment • Equipment is eligible, but not working capital items (inventory, supplies, etc.) |

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