

# The SBA 504 Loan Program

Long-term, fixed-rated financing  
for owner-occupied  
commercial real estate

*Oregon*  
BUSINESS  
DEVELOPMENT  
CORPORATION  
*SBA 504 Real Estate Loans*

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# What is the SBA 504 Loan Program?

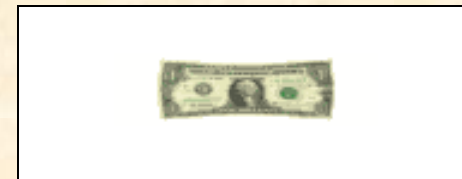
It is the Small Business Administration's  
"economic development financing program"

Loans are provided to new or  
expanding, small businesses to aid in  
job creation

The SBA 504 2<sup>nd</sup> mortgage is guaranteed  
by the Federal Government

# Benefits to Borrower

- Up to 90% financing for project
- Long-term, fixed rate funds ... enhancing cash flow for business & building equity for business owner
- 10 or 20 year term ... avoids balloon payments or loan extensions
- Lower down payment (10%) conserves working capital



# What's Needed for Initial Assessment?

- Purchase & sales agreement or terms of sale
- Cost breakdown of project
- 3 years of company tax returns & interim financial statements
- Detailed schedule of long-term debt
- Eligibility determination
- Personal financial statement & 3 years of personal tax returns



# Eligible Use of Funds

## Fixed-Asset Acquisition

- Purchase land & construction of new buildings
- Purchase and/or renovate existing buildings
- Acquire/Install machinery
- Construct or remodel buildings on leased land
- Soft costs involved in above projects

 R E N O V A T I N G



# SBA 504 Loan Size Requirements



**Minimum Amount of 504  
Loan: \$25,000**

**Total project size can be  
as high as \$20 million or  
more for manufacturers**

**Maximum Amount of 504  
Loan: \$1,500,000**

**Maximum 40% of project costs (\$2,000,000 maximum  
amount if within SBA Public Policy Goals and  
\$4,000,000 for Manufacturing Projects)**

# Job Requirements

Provide one job for every \$50,000  
of 504 Loan

## Exception:

Projects that meet SBA Public Policy Goals do not have to meet the job creation requirement.

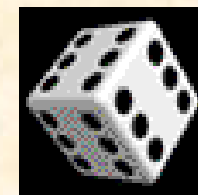
# Public Policy Goals

**Opportunity to fund up to \$2 Million and  
Not Required to Create one job for each \$50,000**

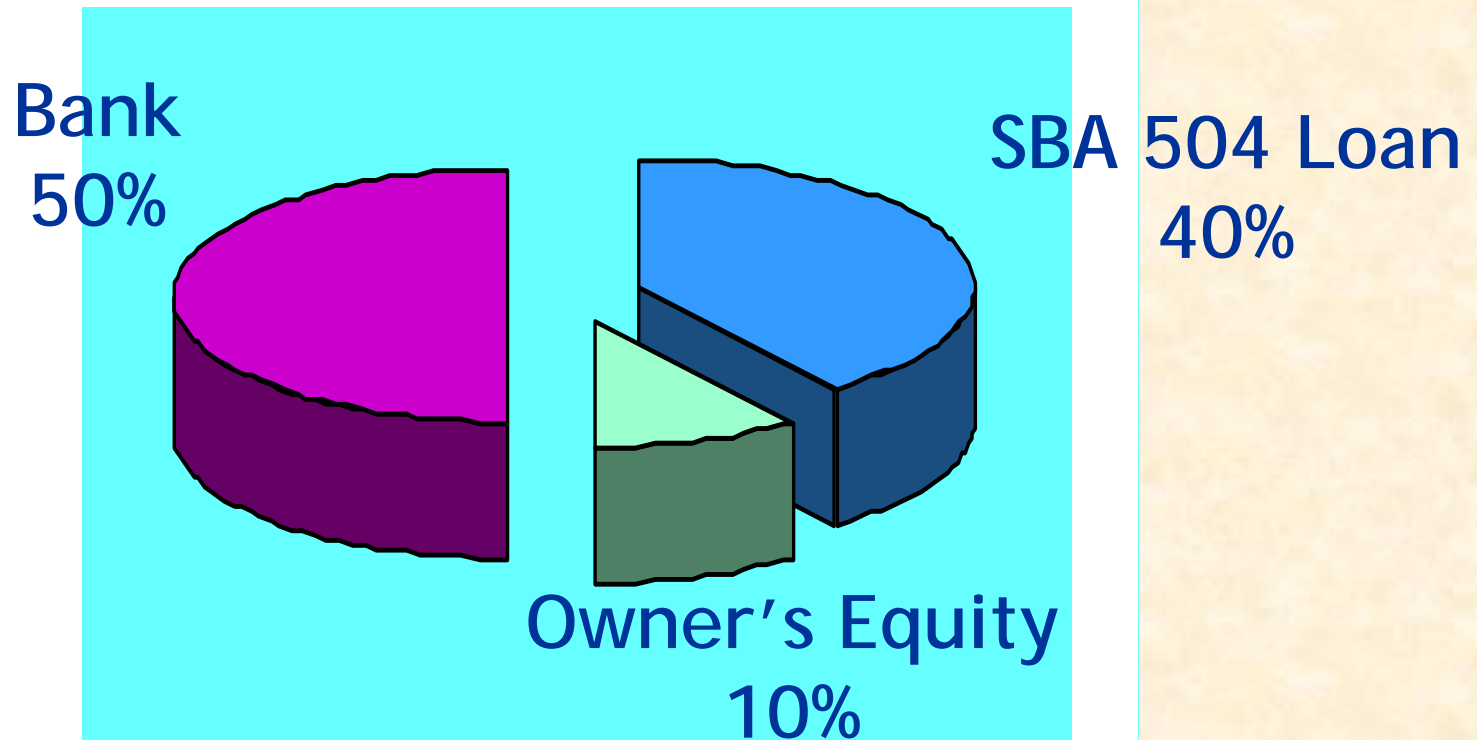
- Rural Development
- Expansion of Minority, Women or Veteran-Owned Business Development
- Expansion of Exports
- Business District Revitalization
- Enhanced Economic Competition
- Restructuring Due to Federally Mandated Standards and/or Policies
- Changes Necessitated by Federal Budget Cutbacks

# Businesses Not Eligible for 504 Funding

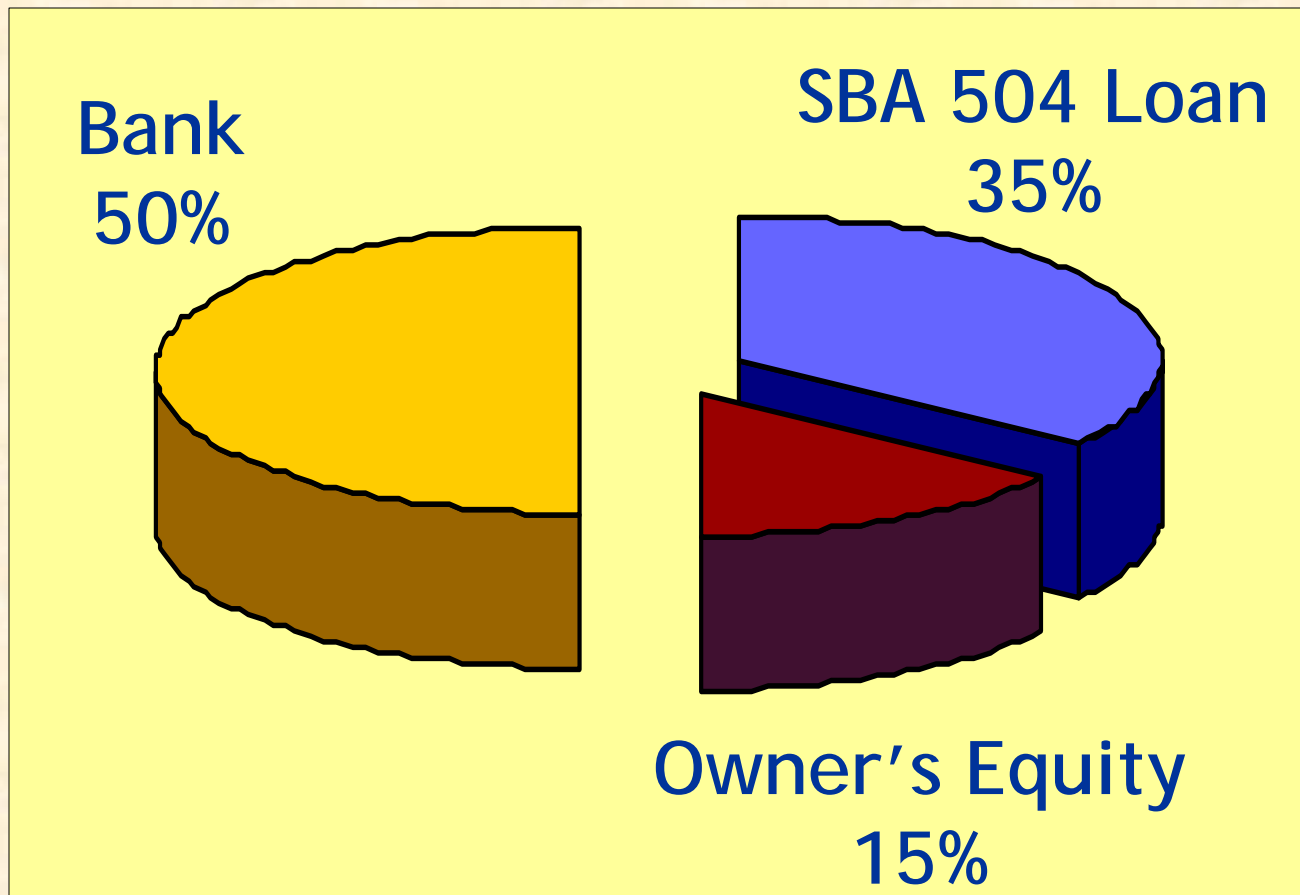
- Non Profits
- Lending institutions
- Life Insurance companies
- Private clubs
- Speculative investment
- Non-owner occupied building
- Gambling concerns
- Businesses engaged in promoting religion
- Cooperatives (exception for some producer co-ops)
- Political or lobbying services
- Businesses located in foreign country
- Businesses selling through pyramid plans
- Businesses with prior loss to the government



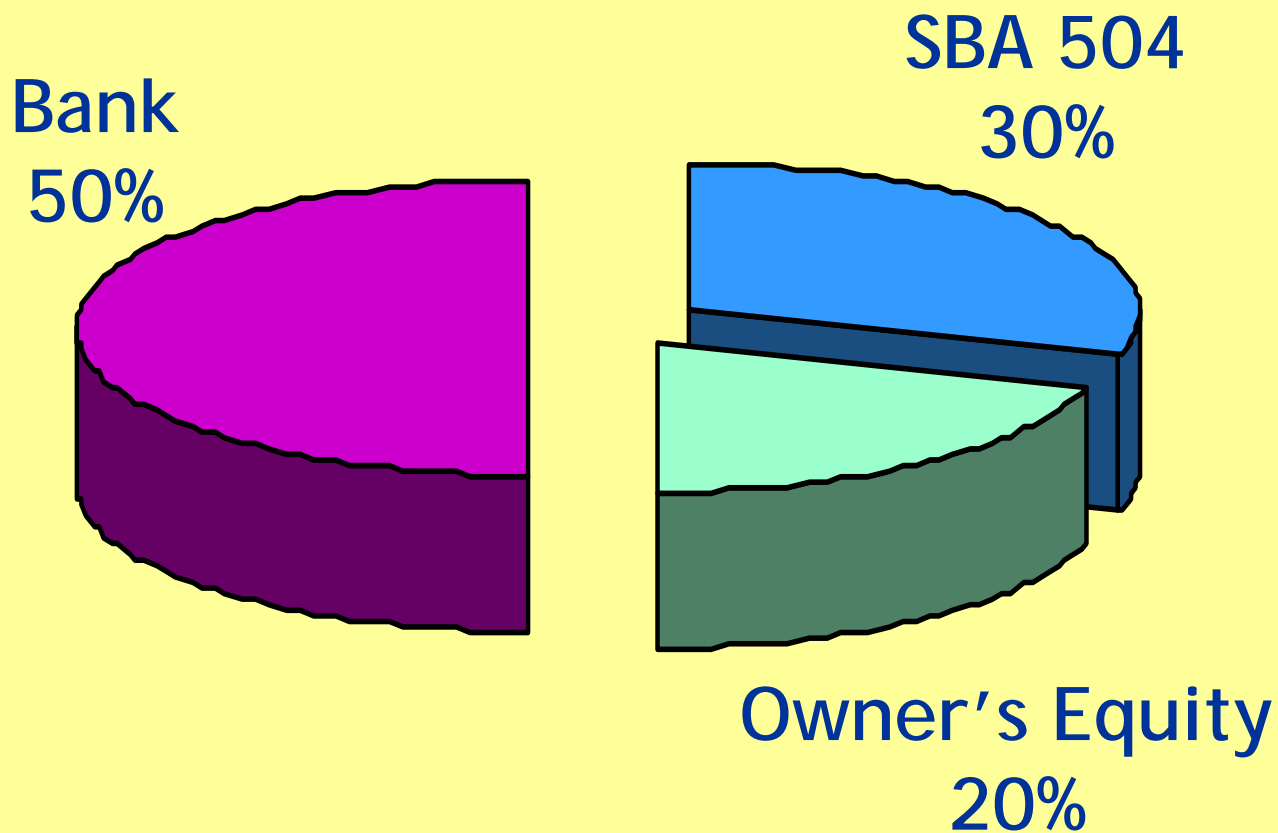
# Typical Structure for Existing Business Expansion



# Typical Structure for a Special Purpose Building OR Start-up Business



# Typical Structure for Start-Up Business AND Special Purpose Building



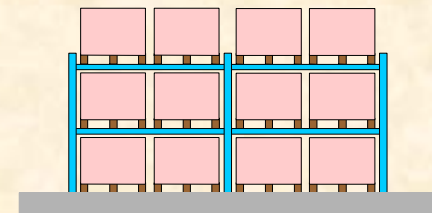
## Eligible Project Costs (example):

Land	\$ 125,000	50% Bank	\$375,000
Construction	425,000	40% CDC	\$300,000
Contingency	25,000	10% Owner	\$75,000
Permits	2,650		
Site Preparation	5,000		
Architect/Engineering	25,000	100%	\$750,000
Machinery/Equipment	54,000		
Sales Tax	39,000		
Title Insurance	2,500 (if title transfers)		
Escrow	750		
Appraisal	4,000		
Environmental Report	2,500		
Interim Loan Fee	9,600		
Interim Interest	30,000 (Construction period + 3 months)		
<b>TOTAL</b>	<b>\$750,000</b>		

Any costs incurred within 9 months prior to submission to SBA  
are eligible toward total project costs

# Ineligible Project Costs:

- Debt Refinancing (except bridge loans and existing debt outside the 504 project)
- Working Capital
- Ancillary Business Expenses-
  - Counseling or management services fees
  - Incorporation/organization costs
  - Franchise fees
  - Advertising
- Fixed Asset Project Components -
  - Short term equipment (less than 10 year useful life)
  - Auto/trucks
  - Construction equipment



# Occupancy Requirements

- **Existing Building:**  
Business must occupy at least 51%,  
and may lease out the other 49%  
permanently
- **Newly Constructed Building:**  
Business must occupy at least 60%



# Ownership of Building

- **By the Operating Company (OC)**
  
- **By an Eligible Passive Company (EPC)**
  - Individuals
  - New corporation
  - Partnership
  - Limited liability corporation
  - Trust

**Ownership of OC and EPC need not be identical.**

# Business Size Standards Requirement\*

When combined with affiliates, business must:

- Have less than \$7,500,000 tangible net worth
- Have less than \$2,500,000 in after-tax income (average for last 2 yrs)

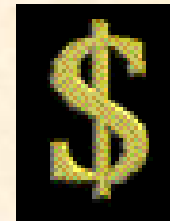
There is no limitation on annual sales volume

\* There are exceptions for certain types of companies & for businesses in labor surplus areas.



# Availability of Personal Resources

Any business owner of 20% or more may be required to inject personal liquid assets (cash or securities) into the project according to a tiered schedule.



Requirements are the same as in the 7(a) program.

# Appraisal Requirements

- When more than \$250,000 of loan proceeds are used for real estate transactions
- For loans over \$1,000,000
- New construction



Under  
Construction

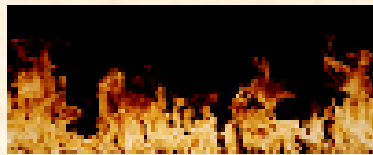
# Environmental Assessment Requirements

## Phase I Environmental Site Assessment is typically required

### Questionnaire only if:

- Bare land no history of commercial use
- When Phase I completed within 1 year
- Project involves multi-unit condominium

### TSA Required (Transaction Screen Analysis): When questionnaire indicates risk of environmental contamination



# Prepayment

## First Half of the 504 Loan -

- Prepayment penalty applies
- Depending on interest rate, it may be beneficial to prepay your bank loan first
- Two prepayment windows/year are available to minimize interest expense

# Fees Charged by CDC

Financed as part of 504 loan - 2.65% of net debenture

CDC Processing Fee: 1.50%

Deposit collected upon issuance of SBA authorization & refunded, less costs, at debenture funding

Underwriting Fee: 0.40%

Covers expense of pooling & underwriting 504 debenture - paid directly to Underwriters

Funding Fee: 0.25%

Paid to Central Servicing Agent (Colson Services)

Kept in master reserve account

Total: 2.15%

# Legal Fees

Closing costs are approximately \$2,500  
and are financed into the gross  
debenture & paid to CDC's closing attorney

## Bank Fees on Third Party Loan:

**Negotiated between Bank & Borrower**

- 0.5% charge to Bank by SBA on the Bank's permanent loan amount
- Normal closing costs included in project

# Debenture Interest Rate

Negotiated by Underwriters, DCFC & the U.S. Government

- Based on current market conditions at the time the debenture is sold
- Payments are paid to bond investors on semi-annual basis



# Note Interest Rate

- Rate stated on the note between borrower & CDC
- Amount used in calculating monthly payments
- Slightly higher than debenture rate as it is paid on a monthly basis rather than semi-annually



# Effective Interest Rate

Rate the borrower actually pays

Note rate (determined at funding)	TBD%
Annual Central Servicing Agent Fee	0.100%
CDC Servicing Fee	0.625%
Loan Loss Reserve Fee	0.021%
	<hr/>
<b>Effective Rate</b>	<b>X.XXX%</b>

# Interim Bank Loan

- Used to facilitate change of ownership
- Used to finance construction and/or improvements to property - if applicable
- Used as a “bridge” loan from time of SBA approval until funding.

# Bank's Permanent Loan

- Permanent financing must be for at least 10 years - (on a 20-year debenture) with no balloon payments during that time
- Interest rate may be re-negotiated throughout the term of the loan.

It's possible to start amortizing the bank's loan before the 504 loan is in place

# Funding the 504 Loan

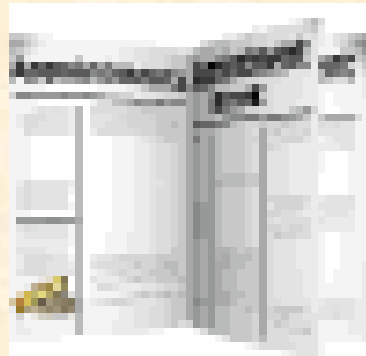
**When the SBA 504 Authorization is received:**

- CDC reviews for changes and/or errors
- Copies sent to Borrower & Bank with instructions
- Bank orders Appraisal & Environmental review if not already completed
- CDC orders Preliminary Title & UCC searches (if needed)
- Work begins on obtaining required documents - corporate resolutions, certificates of good standing, etc.

# 504 Loan Funding Process

CDC schedules “Authorization Meeting” with Bank and Borrower to:

- Review terms & conditions
- Set action steps & time line
- Review for errors
- Sign authorization & collect any other documents



## 504 Loan Funding Process (continued)

### Before a debenture sale date is set:

- Title must be taken by new owner
- Interim & permanent bank loan(s) must be fully disbursed
- Construction or remodeling must be complete
- Permanent Certificate of Occupancy or Certificate of Completion must be forwarded to CDC
- Borrower's financial statements must be current within 120 days of targeted funding date

## 504 Loan Funding Process (continued)

### When the debenture sells:

- Funds are wired to Bank to pay off interim loan
- Letter sent to Borrower stating effective loan rate, payment amount & due date of first payment
- One week later, final closing letter sent to Borrower with Amortization Schedule & Debenture Note

**Please Note:** It can take up to 3 months to fund the 504 Debenture once project completed

# Events that can Delay Funding Process:

- Changes in project costs
- Lower than expected appraisals
- Incomplete or negative environmental investigations
- Changes in Borrower's organizational structure
- Adverse financial change in the operating company
- Lawsuit, divorce or other legal issues



# Delays to Funding (continued)

- Delay in receiving Subordination Agreements or UCC filings
- Unexpected Deeds of Trust or Liens on collateral
- Delays in obtaining a final title policy to property taken as collateral
- Delays in completing documentation within time allotted
- Property or life insurance issues



# Why YOU Should Consider an SBA 504 Loan

- ✓ Up to 90% financing for project
- ✓ Long-term, fixed rate funds
- ✓ 10 or 20 year term
- ✓ Lower down payment

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