

2/2/2015



The proposed loan structure described below is pending review by the Loan Committee of the South Central Tennessee Business Development Corporation (SCTBDC). Based on the information provided, SCTBDC believes that the project is eligible for financing under the 504 program of the United States Small Business Administration (SBA). A review and decision by SCTBDC is expected within seven to ten days of the receipt of final information requests. If approved, submission to the SBA will follow immediately thereafter and a response is anticipated within ten days of receipt by SBA.

That being said, this letter will serve only as an expression of interest, and is not a formal commitment to lend and should not be relied upon as such. The proposed 504 loan will not include allowances for working capital, such as franchise fees, which will need to be funded either from your own resources or from another financing source. It is likely that the lender undertaking the first position, "Private Sector" loan cited below, would be willing to consider such a loan. The terms of any accompanying working capital proposal are negotiated with the lender, and proposed terms of such must be disclosed to SCTBDC to meet SBA requirements.

Proposed Used of Funds:

A. Land (and purchase of existing building, if applicable)	200,000	18.96%
B. Building (new construction, remodeling, L/H improvement, etc.)	550,000	52.13%
C. Purchase Contract	-	0.00%
D. Machinery & Equipment (purchase, installation, etc.)	250,000	23.69%
E. Professional Fees (appraiser, architect, legal, etc.)	7,800	0.74%
F. Other Expenses (contingency and interim interest estimate)	47,300	4.48%
TOTAL PROJECT COST (Not including 504-related fees)	1,055,100	100.00%

Sources of Funds:

A. Net SBA Debenture (VIII.A.)	422,040	40.00%
B. Private Sector Lender (TPL)	527,550	50.00%
C. Borrower Injection	105,510	10.00%
D. Seller Financing	-	0.00%
TOTAL PROJECT FINANCING	1,055,100	100.00%

SCTBDC is a Certified Development Company licensed by the Small Business Administration to provide long-term financing through the Real Estate Advantage Loan (REAL) 504 Program.

SCTBDC is an equal opportunity Lender

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Though the terms of the loan provided by the “Private Sector” lender are negotiated between you and the lender, SCTBDC is willing and able to assist you in seeking a lender for the 504 Private Sector loan and, if needed, other credit or banking services including identifying sources of working capital. The terms of the proposed loan to be provided through SCTBDC, referred to and briefly described below as the “Net SBA Debenture” are subject to approval and review by the SBA. If this proposed loan is approved by the SBA, the terms and conditions of such will be governed by the SBA Authorization and related documents, which will supersede all other agreements, communications, or understandings. Information contained herein is for discussion purposes only and is not intended to be binding.

Funding for your small business loan comes from the sale of a debenture. Debentures are available in 10 year and 20 year increments only. The interest rate, and thus, the loan payment are determined by a regularly scheduled auction of Debentures backed by the SBA. As the rate is established at the auction, rates cannot be forward locked. The project cannot be entered into the auction schedule until the construction is completed and a certificate of occupancy has been issued.

Fees related to the Debenture issuance are regulatory and are based on and added to the "Net SBA Debenture" amount depicted herein to arrive at the Gross Debenture amount. In this manner, fees associated with the debenture issuance are rolled into the fully amortizing loan. Debentures may only be pooled in \$1,000 increments, so the amount is rounded up to the nearest \$1,000. The Gross Debenture amount is the total of your SBA loan. The difference or balance is distributed to the borrower.

Gross Debenture Calculation

I. Bank Interim Loan (Net SBA Debenture)	422,040
II. CDC Processing Fee (1.5%)	6,331
III. SBA guaranty fee (0.5%)	2,110
IV. Funding Fee (0.25%)	1,055
V. Legal Closing Fees	2,500
VI. Underwriting Fee (0.40%)	1,744
Subtotal	<u>435,780</u>
Balance to Borrower	<u>220</u>
Gross Debenture	436,000
Debenture rounded up to nearest \$1,000	
Summary Debenture loan fees paid (II + III + IV + V + VII)	13,740

The SBA backed Debenture is purchased by investors who are entitled to prepayment premiums, as indicated in the chart below. Prepayments shown relate to the Debenture only and are eliminated after the first half of the loan term. The premium is calculated based on the rate established at the Debenture auction, thus the premiums shown below are an estimate based on an estimate of the auction results. The prepayment penalties amortize over their effective life and prepayments are calculated on the outstanding loan balance at the time a prepayment is scheduled.

DEBENTURE AMOUNT	436,000
DEBENTURE RATE	2.109%
EFFECTIVE RATE	4.550%
DEBENTURE TERM	10 Years
DEBENTURE AMORTIZATION	10 Years
ESTIMATED PAYMENTS	
BANK LOAN	5,660.17
SBA 504 DEBENTURE	4,773.36
TOTAL	<u>10,433.53</u>

SBA 504 LOAN ESTIMATED PREPAYMENT PREMIUM SCHEDULE

YEAR (END)	PREMIUM	RATE
1	\$8,779.01	2.109%
2	7,192.55	1.687%
3	5,808.16	1.265%
4	4,607.33	0.844%
5	3,572.56	0.422%
6	0	0
7	0	0
8	0	0
9	0	0
10	0	0

Benefits of the SBA 504 program are that it typically allows a **lower down payment** than other financing options and offers a **fixed rate** to the borrower on the 504 program portion of the financing for eligible project costs. The 504 Program enables small businesses to access major capital markets similar to the way large public companies do by issuing a bond. It is a streamlined, cost effective way to raise capital, enabling savvy principals to retain their liquidity for use in their operations, rather than tying it up in long term fixed assets. The SBA 504 is a fully amortizing loan.

Closing Fees

There are two major categories of loan closing costs for SBA 504 program loans: **Debenture Issuance** and **Real Estate Conveyance**. (If the proposed loan involves only equipment, Real Estate conveyance charges will not apply.) The categories are separated to demonstrate which costs are typical to any transaction, and to isolate those associated only with the SBA 504 loan.

Debenture Issuance charges are specific to the SBA 504 program's funding mechanism which involves issuing a federally backed bond (the "Debenture") and such fees are rolled into the Debenture, thus the difference between the "Net" and "Gross" Debenture as shown on page 2.

Real estate conveyance charges are generally rolled into the project cost as "Professional Fees" or "Other Costs" as shown in the Sources and Uses of funds on page one, and thus are funded through the loan proceeds and the borrower's injection. These may include collateral verification costs as well as recording fees and tax stamps, title search, title insurance, Lender origination fees, contingencies, or interim interest costs when applicable. An estimate of these fees may be included in your project as itemized below. These are only estimates. Levies change with jurisdictions and other estimates are based on prior experiences, however the actual amounts may differ significantly from the estimates proposed here.

Certain fees are ineligible, most often, certain attorney's fees related to the closing of the loan. These can amount to several thousand dollars and are paid by the Borrower at closing. These charges are common to any real estate driven transaction and will be incurred, and not likely financed, by any other form of real estate financing obtained.

Debenture Issuance

Fees estimated for program participation are estimated at 13,739.90 or approximately 1.302% of the overall project. These fees are specific to the 504 loan program. Please see the Gross Debenture calculation on page 2 for a recap of how this was calculated.

Real Estate Conveyance

Professional Fees

Appraisal	3,500.00
Environmental Report	1,000.00
Survey	750.00
Title Insurance	2,549.27
Transfer RE Taxes	-
Mortgage Taxes	-
	<u>7,799.27</u>

Other Costs

Contingency	Up to 10% of Construction	27,500.00
Lender Origination		5,275.50
Interim Interest		14,437.50
		<u>47,213.00</u>

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