# Program Summary

 The SBA 504 program (504) is a unique financing product created by the Small Business Administration (SBA) to assist for-profit small businesses in their efforts to attain long-term, fixed rate financing for owner occupied capital assets and improvements thereto, while supporting job creation and 15 other [Community Development and Public Policy goals](file:///C%3A%5CDocuments%20and%20Settings%5CAdministrator%5CDesktop%5C504%20Program%5CCommunity%20Development%20and%20Public%20Policy%20goals.docx).

It works by leveraging the funding your Small Business Concern (SBC) is offered through conventional financing sources, such as a bank, and works to reduce the down payment you are required to make. A typical 504 project will be financed by a 50% loan from your bank or lender of choice, and up to 40% will be financed through the SBA 504 Program by the CDC, and the remaining 10% will be funded through a cash injection into the project by the SBC. The division of leverage will be modified to require an additional 5% down payment if a company has been operating for less than two years at the time application, or if the fixed assets are special purpose in nature.

10%

50%

40%

The Small Business Applicant will be \*an operating business, \*organized for profit, \*be located within the State of Tennessee, \*be “small” as defined by the U.S. SBA, and demonstrate a need for the credit.

Project size can range anywhere between $25M - $5.5MM, but the ideal project would start at $250M, which would make the minimum debenture approximately $100M. The fee structure is prohibitive of smaller transactions. There are some fixed and some variable costs associated with the 504 program, so the cost of accessing the 504 program shrinks as a percentage of the project as the eligible project costs increase. The largest cost associated with the 504 program is the debenture issuance costs, which can be described as difference between the net and gross debenture. The fees are included in the SBA loan. See an example of a $1MM transaction below.

Proposed Sources & Uses, and Debenture Issuance costs for an example $1,000,000 transaction.





There are two markets for the SBA 504 program. Since the program is not available through traditional lending channels, and can only be attained through your local Certified Development Company (CDC), both Borrowers and Lenders may seek out information regarding project eligibility, terms of the program, and historical rate information, or answers to other project specific questions. Surprisingly, often times, there is little more paperwork involved than what is typically collected with any other type of loan, conventional or otherwise. SCTD can help you navigate the process for a smooth and seamless transaction for both the borrower and the lender.

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| **SBA 504 Program** **Borrower Benefits** | **SBA 504 Program** **Lender Benefits** |

# SBA 504 Benefits for the Borrower

Your have been doing your research. You have read about government guaranteed loan programs and you are sure they can help you achieve your business goals. You call your lender and they are not comfortable with participating in government guaranteed programs. No problem. SCTD is your counter party to the SBA. We can work with any lender, even if they have never worked an SBA loan. We will meet with you and your lender to explain how you can gain access to a government guaranteed loan with the 504 Program, without ongoing covenants for the lender to manage following the close.

## Lower Down Payment

When compared with conventional alternatives, the down payment for a project funded in part by the SBA 504 Program is lower, usually 10%. You are a successful operator. Your money is more effective in your hands, operating the business, than being tied up in long term assets. Keep more working capital in your business with the help of an SBA 504 Program loan.

## Long-Term Financing

Success eludes some small businesses. They don’t all make it. Ballooning debt every 3-7 years adds undue risk to your business venture. You beat the odds every day with you hard work, service to your customers, and dedication to your honing your craft, worrying about whether or not you’re your lender is going to be able to renew your mortgage should not be what limits your ability to succeed. Further, renewing your terms every few years can prevent your loan from fully amortizing. If the new balance at the end of every term gets amortized over a new twenty year period, you might as well be paying rent.

## Fixed Rate

Rates may have never been much lower than they are today, but they have been higher. What would happen to your business if your monthly payments suddenly increased? A change in your variable rate from 4% to 7% on your quarterly adjusting mortgage or equipment loan would equate to an increase in debt service, on a $500K note, by between $10K and $12K annually resulting in potentially hundreds of thousands of dollars spent over the life of the loan. The more leverage you have, the more volatile the swing.

**Only the 504 Program offers a fixed rate** – it is because your project is funded in part through the sale of a bond. The semi-annual bond payments cannot be increased. Shield yourself from Interest Rate Risk and manage your business, not your debt. Plan for future growth and plan so that you can make future business decisions with more confidence.

## Up to 100% Financing

 Use equity in project property purchased two years before the date of application or longer to offset your down payment requirement. If the asset is leveraged, subject to certain restrictions and conditions, roll that debt into your 504 Project as eligible refinancing. You can also borrow your equity contribution from a variety of other sources.

# SBA 504 Benefits for the Lender

If you don’t already participate in other government guaranteed lending programs such as the SBA 7a, SBA Patriot Express, or USDA B&I Program, you may not be comfortable having one loan on your books that is different from all the others. You have found the golden ticket. Take advantage and add government guaranteed lending to your toolkit without any additional costs to the bank. If you already have guaranteed lending options, add the SBA 504 Program to your arsenal. The differences are distinctive and unmatched by any other program.

## Make your conventional loans more reliable

Ease the stress of your applicant’s cash flow assumptions with the SBA 504 Program. The long term, fully amortizing loan, with competitive fixed rate gives you a more dependable conventional loan, which thanks to the SBA 504 Program, already has a well secured 50% Loan to Value ratio.

## Easy to use

You underwrite the loan and prepare your write up just like you would with any other project, only make it subject to the participation of the SBA. See an example [Bank Participation Letter](Bank%20Participation%20Letter.docx) here. SCTD can answer your project specific questions in a timely and courteous manner. Your project will always be held in confidence. Our LOI example provides a quick recount of the borrower’s payments, based on the proposal, on the TPL and SBA loans and provides details such as rate and term in a clearly visible manner making decision criteria easy to see and easier to sell.

## Customer Service

Make things simpler for your borrower. You can contact SCTD to have an eligibility screening consultation via phone or in person at the site, when we will draft a [Summary Worksheet](../504%20Program%20Draft%20Summary%20Worksheet%20.pdf) that will dissect the project as a 504. The [SCTD LOI document](../504%20Program%20Draft%20LOI%20Example.pdf) will also explain program costs, prepayment costs, and closing expenses in a way that is borrower centric in its presentation. Your borrower will appreciate options, especially one with a long-term, fully amortizing, fixed rate.

## Be more competitive

You have limited options when you are looking at a project alone. Participation with another area lender gives you a slight advantage, but participating with a fully subordinate lender that does not expect to share in your position gives you the ability to be more aggressive in your pricing with a conventional loan at 50% LTV.

## The 504 Program as leverage

On the flipside of that, if the market bears it, you can use the SBA 504 Program to blend down your higher rate if the project is of a silo that you do not typically market your services toward, in particular if the deposit relationship is your goal. The SBA 504 Program can also help you solve concentration issues and help you enter new markets with more confidence.

## Be First – But Be Different

With a quick turnaround on an LOI from you CDC partner, SCTD, you can grab the attention of a prospect quickly. Unless another lender in your area has called SCTD, it is likely that your option will be different than any other offer a borrower gets to see.

## Other advantages

If liquidity is an issue, there are secondary market opportunities for your first position 504 TPL loan, in certain circumstances. For certain credits, table funding and an interim lender may be able to be arranged. SBA 504 can also provide CRA credit. Contact SCTD with your questions about the secondary market to see if your project is eligible.

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| **Typical 504 Structures** |
|  | Standard FinancingStructure | New Business ORLimited or Special Purpose Property | Both New ANDLimited or Special Purpose Property |
| Third Party Lender | 50% | 50% | 50% |
| CDC/SBA | 40% | 35% | 30% |
| Borrower | 10% | 15% | 20% |

SOP 50 10 5(G) Subpart C Effective Date: October 1, 2014

## The Big Piece of the puzzle:

The 50% portion of the SBA 504 Project will need to be provided by a Third Party Lender. This could by your bank, which you have a deposit relationship with, a non-depository lender, or a new lender with a local market presence in the area where you are making your investment. The terms and rate of your TPL loan are negotiable between you and that lender. The SBA does impose some restrictions on the TPL, but those [Six TPL Restrictions](file:///C%3A%5CDocuments%20and%20Settings%5CAdministrator%5CDesktop%5C504%20Program%5CSix%20TPL%20Restrictions.docx) are to protect the borrower.

## Your Piece of the puzzle:

 A Borrower must contribute cash or other project property acceptable to SBA obtained with the cash, or land (that is part of the Project Property), in an amount equal to at least 10 percent. There are two circumstances when the borrower’s contribution is increased to 15 percent, if the Borrower (or Operating Company if the Borrower is an Eligible Passive Company) has operated for two years or less or if the Project involves the acquisition, construction, conversion, or expansion of a [limited or single purpose building or structure](file:///C%3A%5CDocuments%20and%20Settings%5CAdministrator%5CDesktop%5C504%20Program%5CLimited%20or%20Special%20Purpose%20Properties.docx). If the Project involves both circumstances, the borrower will be required to inject at least 20 percent.

### Equity from multiple sources . . .

The source of the contribution may be from any other source except an SBA business loan program, including a loan from a bank or other financial institution. The source could also be other property acceptable to SBA, which might include the borrower’s equity in land previously acquired or equity in land and buildings that will be part of the Project if the borrower is adding a new building to the same property.

### Equity from a loan:

The borrower must demonstrate repayment of the loan for its contribution from the cash flow of the business or other sources. The loan may even be secured by project assets if the position is subordinate to SBA and the loan for the contribution is not repaid at a faster rate than the SBA 504 Program loan without the SBA’s prior written approval. Other restrictions on borrowed equity are that the interest rate must be reasonable as defined by the maximum interest rate for any Third Party Loan from commercial financial institutions published by the SBA in the Federal Register and the loan may not be convertible to stock, voting rights, or other conflicting interest in the Small Business Concern.

### Equity from Property:

Land and necessary improvements purchased or paid for prior to the SBA 504 loan application, including grading, new streets, curbs and gutters, parking lots, utilities, and landscaping will be counted at cost if it was bought less than two years prior to the date of the application, or fair market value as supported by an appraisal if held for more than two years.

## The SBA 504 Program Piece of the puzzle:

[Eligible Project costs](Eligible%20project%20costs.docx) typically will include the fixed asset itself, such as land, building, and capital equipment and improvements thereto, but may also include the following, which may be paid with the proceeds of 504 loans are:

1. Costs directly attributable to the Project including expenditures incurred by the Borrower (with its own funds or from a loan) to acquire land used in the Project, or for any other expense directly attributable to the Project, prior to applying to SBA for the 504 loan;
2. In Projects involving construction, a contingency reserve for cost overruns not to exceed 10 percent of construction cost;
3. Professional fees directly attributable and essential to the Project, such as title insurance, opinion of title, architectural and engineering costs, appraisals, environmental studies, and legal fees related to zoning, permits, or platting; and
4. Repayment of interim financing including points, fees and interest.
5. If the project involves expansion of a small business concern, any amount of existing indebtedness that does not exceed 50 percent of the project cost of the expansion may be refinanced and added to the expansion cost if certain conditions are met. Ask your CDC Manager for details.
	1. For the purposes of paragraph (e), the phrase “project involves expansion of a small business concern” includes any project that involves the acquisition, construction or improvement of land, building or equipment for use by the small business concern.

Ineligible Project Costs include:

1. Debt refinancing (other than interim financing), except as provided in (e) above
2. A CDC may not use 504 loan proceeds to pay any creditor in a position to sustain a loss causing a shift to SBA of all or part of a potential loss from an existing debt.
3. Third-Party Loan fees (commitment, broker, finders, origination, processing fees of permanent financing).
4. Ancillary business expenses, such as:
	1. Working capital;
	2. Counseling or management services fees;
	3. Incorporation/organization costs;
	4. Franchise fees; and
	5. Advertising.
5. Fixed-asset Project components, such as:
	1. Short-term equipment, furniture, and furnishings (unless essential to and a minor portion of the Project);
	2. Automobiles, trucks, and airplanes; and
	3. Construction equipment (except for heavy duty construction equipment integral to a business' operations and meeting the IRS definition of capital equipment).

Websites and Resources for additional information

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| [The Latest Funding Rate](504%2020%20Year%20Debenture%20Offering%20for%20Marketing%201.13.2015.pdf)  | [Coleman Report](http://www.colemanreport.com/) |
| [NADCO](Nadco.org) (Trade Organization for the SB 504) | [Ten Year Treasury Rate](http://data.cnbc.com/quotes/US10Y) |
| [NAGGL](naggl.org) (Nat. Ass. Of Govt. Guaranteed Lenders) | <SBA.gov> |
| [SOP 50 10 5 (G)](https://www.sba.gov/sites/default/files/sops/SOP%2050%2010%205%20G%20FINALWEB%20VERSION%20-%20CLEAN%20Eff%2C%2010-1-2014.pdf) | [eCFR 120 – Business Loans](http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr;sid=6f99b4b3e9a9f88478c2bf65dfd47599;rgn=div5;view=text;node=13%3A1.0.1.1.16;idno=13;cc=ecfr) |
| [US Treasury Article](insights-occdmrm-504.pdf) | [Federal Registry](https://www.federalregister.gov/) |

For a free consultation to help you decide if this program is right for you and your business, please contact us using the form below.

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| **Nathan Ward**Director of Economic Development/Special Projects(931) 379-2903nward@sctdd.org | **Eddie Fitzgerald**Economic Development Loan Officer(931) 379-2918efitzgerald@sctdd.org |

To begin the loan process, contact us to set up an eligibility screening interview. The consultation is risk-free and can help you in deciding if the EDA fund is right for you and your business needs. To see what information will be needed, follow the links below:

###### [**SCTD**](http://sctdloans.org/wp/wp-content/uploads/2015/01/2015-Complete-Application-Checklist.pdf) **SBA 504 Loan Program Application**

###### [**Borrower**](http://sctdloans.org/wp/wp-content/uploads/2015/01/2015-Application.pdf) **Authorization**

###### [**Engagement**](http://sctdloans.org/wp/wp-content/uploads/2015/01/2015-SBA-Form-413.pdf) **Letter**

###### [**Personal**](http://sctdloans.org/wp/wp-content/uploads/2015/01/2015-Personal_Credit_Inquiry_Release.pdf) **Financial Statement**

###### **Statement of Personal History**