



SBA 504 Program Overview



SBA's Premiere 504 Lending Partner

www.nwbusiness.org



The SBA 504 Loan Program

Congress authorized the creation of the Small Business Administration's (SBA) 504 Loan Program in 1958 and established a way to provide small business with access to long-term fixed rate financing, while creating and retaining jobs was given a high priority as a way to ensure that the program would build stronger communities.

The program is administered through regional, non-profit Certified Development Companies (CDC's) who work as an intermediary between the SBA and a participating lending institution to provide the financing. Northwest Business Development Association (NWBDA) is one such CDC, working in Washington, Oregon, and North Idaho to help provide small businesses with expanded financing options.

About Northwest Business Development Association

Northwest Business Development Association (NWBDA) was established in 1981 and has become one of the most active SBA Certified Development Companies in the Pacific Northwest. Headquartered in Spokane, we have knowledgeable Business Development Officers serving clients in Washington, Oregon, and Idaho.

NWBDA is a private, non-profit 501C corporation—fully self-supporting and does not receive any federal, state or local tax funds in support of its operations. The Association operates on income derived solely from loan packaging, closing and servicing fees.

It is by offering programs such as the SBA 504 that NWBDA is able to fulfill its mission of helping foster community development by helping small business to thrive. In addition, NWBDA issues grants to micro lenders in the areas we serve each year to further support community growth and job creation.

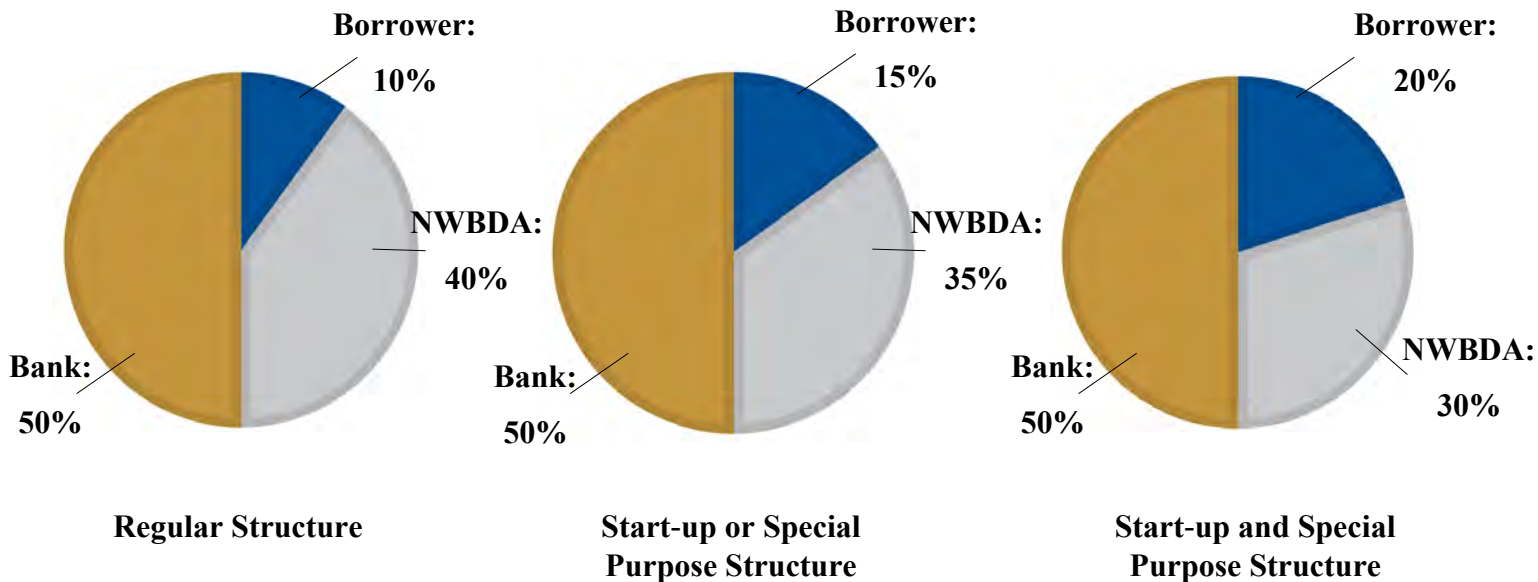


SBA 504 Loan Benefits

The SBA 504 Loan Program has many benefits for borrowers and is designed to keep monthly loan payments low.

Low Down Payment

A borrower may qualify with as little as 10% down if the business has been in existence for more than two years and the fixed asset is not classified as a special use property. An additional 5% equity injection by the borrower is required if the business is less than 2 years old, or if the asset to be financed is considered special use. If both of the preceding are true, start-up and special use, then the borrower's injection would increase to 20%.



1.

In some circumstances, the down payment/equity can be in the form of subordinated debt or equity in the real estate to be improved/expanded. To determine value of equity, real estate owned two years or more will be valued at current market value as determined by an appraisal; real estate owned less than two years will be valued at cost.

2.

SBA allows for seller carry back as part of the required down payment. An appraisal is required with the application. Seller carry back has to mirror the terms of the SBA 504 loan if secured with 3rd lien on the project property and cannot be paid back faster than the SBA. NWBDA/SBA requires at least 50% of the downpayment come from the borrower.

SBA 504 Loan Benefits

Below Market Fixed Rates

Loan proceeds are generated from the sale of SBA guaranteed debentures to private Wall Street Investors. This “Window on Wall Street” gives the small business owner the unique opportunity to further leverage Federal assets through access to fixed-rate, long-term growth capital not normally available to small businesses.

Long Term Financing

Maturity terms are typically longer than are available from a third party lender (usually a commercial bank) allowing preservation of your working capital for future growth. The SBA term is generally 10 years for equipment and either 20 or 25 years for commercial real estate. The private lender’s term must be either a minimum 7 or 10 years, but can be longer.

Peace of Mind

A 20 or 25 year term on the SBA portion of the project financing avoids balloon payments, renegotiation of rates and fees, and eliminates any possibility of higher future payments—stabilizing the small business occupancy expense.



Eligibility Requirements

If you can answer **YES** to the following statements, you may qualify for an SBA 504 loan.

The business is a for-profit company.

The proceeds of this loan will be used to finance the acquisition or construction of fixed assets (not including vehicles and titled equipment).

The Operating Company and all affiliates do not have a tangible net worth in excess of \$20 million and do not have an average net income in excess of \$6.5 million after taxes for the preceding two years.

If the business is a franchise or has dealer agreements, the borrower will forward a copy of the franchise and/or dealer agreements to the CDC for review and acceptance.

The business is not engaged in speculation or investment in non-owner occupied rental real estate, including apartment buildings or mobile home parks.

The business will occupy at least 51% of an existing building being purchased; or for ground-up construction, 60% upon completion and 80% within 10 years.

100% of the owners of the business are U.S. Citizens or a Legal Permanent Resident of the U.S.

All business owners of 20% or more of the Operating Company (OC) or Eligible Passive Company (EPC) must guaranty the SBA debt. Each spouse owning 5% or more of the OC or EPC must guarantee the loan when the combined ownership interest of both spouses is 20% or more.

Sole member companies will be willing to comply with the SBA requirement to have an assignable life insurance policy in the amount of any collateral shortfall.

None of the owners of this business have had any prior losses with the U.S. Government, including student loans, FHA, or VA home loans.

All business owners have good character with no pending charges or convictions, and are not currently on probation. Please consult with your NWBDA representative if there are previous convictions, arrests, bankruptcies or lawsuits.

The borrower must provide a benefit of at least 1 job per every \$95,000 of project debenture (\$150,000 for energy projects and manufactures). This requirement may be waived if project meets a *Public Policy Goal or a **Community Development Goal.

***Public Policy Goals:** (1) Revitalizing a business district; (2) Exports; (3) Woman-owned; (4) Veteran-owned; (5) Minority-owned; (6) Rural development; (7) Increasing productivity and competitiveness; (8) Modernizing or upgrading facilities to meet health, safety, and environmental requirements; (9) Assisting businesses due to Federal budget reductions; or (10) Reduction of rates of unemployment in labor surplus areas.

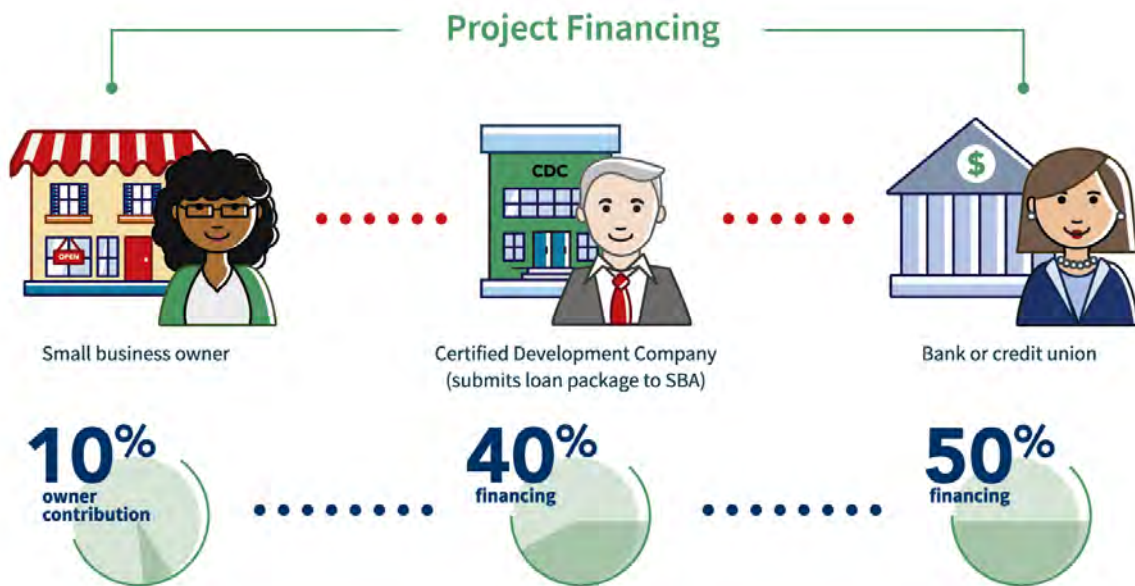
****Community Development Goals:** (1) Improving, diversifying or stabilizing the economy of the locality; (2) Stimulating other business development; (3) Bringing new income into the community; (4) Assisting manufacturing firms; or (5) Labor Surplus Area.

How the SBA 504 Loan Works

Financing Structure

A typical SBA 504 project consists of three-party financing; a third party lender provides a loan for 50% of the financing in the first lien position; NWBDA provides a loan (debenture) for up to 40% of the financing in the second lien position; and the borrower provides at least 10% of the financing.

An additional 5% equity injection by the borrower is required if the business is less than 2 years old, or if the asset is considered “special purpose”, the borrower’s share would increase to 20%.



Step by Step - the typical process to acquire financing includes:

1. Borrower applies for and obtains a commitment subject to SBA approval from a third party lender to finance 50% of the total project.
2. Once this commitment is secured, NWBDA packages the loan for final review and approval by the CDC and the SBA.

All real property that SBA finances must be appraised (unless it has been less than 2 years since it's last purchase and undergo an environmental assessment. In most cases the appraisal and environmental documentation required by the third party lender is sufficient to meet these criteria.
3. Once SBA approval is obtained, the third party lender can begin disbursing its 50% approved financing. The third party lender will also advance NWBDA's portion of the financing through a temporary "interim loan" made to the borrower.
4. When the project is completed, NWBDA goes through a debenture closing and funding process whereby the interim loan is paid off and the SBA guaranteed debenture is put in place.

Project Costs

Eligible Project Costs:

Proceeds from SBA 504 Loans must be used for fixed asset projects, such as:

- Purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots, and landscaping;
- New building construction and/or modernizing, renovating or converting existing facilities;
- Leasehold improvements for the operating small business;
- Other costs associated with a project are also eligible for financing, e.g., architects and engineering fees, appraisals, environmental reports, interim interest, interim loans fees, title insurance, and impact fees;
- Construct or remodel buildings on leased land (where the lease is as long as the term of the 504 loan).
- Purchasing machinery and equipment which must have a minimum useful life of 10 years and meet the definition of capital equipment assets.

Ineligible Project Costs:

Proceeds from the 504 loan program cannot be used for working capital, inventory, vehicles, or titled equipment.

Maximum Debenture Costs

NWBDA can participate on 504 loan projects with maximum debenture amounts of \$5 million and in some cases can reach \$5.5 million (\$13.75 million) per debenture for manufacturers and green projects. NWBDA's portion of the 504 financing is limited to 40% of total eligible debenture costs or the maximum debenture, whichever is less. The maximum debenture cannot exceed:

- \$5,000,000 for regular 504 loans and borrowers (this is the max cumulative SBA eligibility per borrower, including all affiliate businesses, not a per loan limit)
- \$5,500,000* for a manufacturing company or businesses who can provide a reduction in energy consumption by at least 10%
- \$5,500,000* if project generates 15% of the energy used by renewable energy or renewable fuels, such as biodiesel or ethanol production.

*On a \$5,500,000 debenture the maximum loan amount applies to each PROJECT, rather than per borrower (the maximum accumulate SBA eligibility per borrower is \$16,500,00).

- Please note: as SBA loan fees are included in the debenture, the net loan proceeds of a \$5,000,000 debenture is \$4,867,500; the net proceeds of a \$5,500,000 debenture is \$5,354,250.

Fees - Fees associated with the SBA 504 portion of the loan include:

- NWBDA collects a 1% processing fee at the time of application. This fee may be refundable if NWBDA or the SBA declines the credit request. If the request is approved, the fee is considered earned regardless of if the project goes through the final debenture funding. Once the debenture funding is complete, the fee is refunded to the borrower less hard costs for processing the request (credit reports, background reports, SBA title insurance, etc.)
- One-time loan fees on a 504 loan are approximately 2.65% of the financing provided by NWBDA. These fees are financed in the SBA loan.
- The lender may charge fees on its portion of the financing. The SBA charges the lender a one-time fee of 0.5% of the permanent loan amount. This fee is due at the time that the SBA loan is closed.

Real Estate Holding Companies

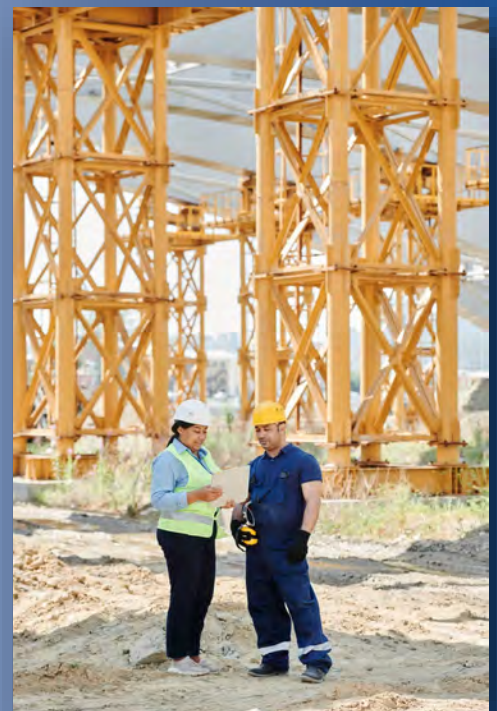


When a real estate holding company (REHC) is formed:

- The REHC must lease 100% of the building to the operating company(s);
- The OC must occupy at least 51% of total rentable square footage when purchasing an existing building, and 60% if new construction at completion, with no less than 80% occupancy after 10 years.
- Rent charged by the REHC cannot exceed the principal, interest, taxes, insurance, utilities, assessments, and maintenance of the subject building. The allowed maintenance provision is equal to 15% of the other known costs.
- If part of the building will be leased to unrelated tenants (prior to SBA debenture funding), each tenant will need to sign two documents prior to SBA debenture funding: Memorandum of Lease and Subordination Agreement.
- Leasing or sub-leasing a portion of the building to a business that derives revenue from a cannabis/marijuana related business activity is prohibited.
- If part of the property will be leased to a 3rd party, it must be a sublease from the operating company.

Construction/Tenant Improvement or Equipment Related Projects:

- The construction disbursement process is managed by the bank, and NWBDA will need evidence of how funds were disbursed (i.e., signed/certified construction disbursement spreadsheet)
- NWBDA will need a construction bid/estimate on a licensed contractors letterhead including eligible project costs prior to initiating credit review. DO NOT include builders risk insurance in the quotes as SBA cannot finance this, and DO include sales tax.
- For projects involving “do-it-yourself” construction, the owner cannot make a profit on the work completed and must obtain two competing bids for the project from other licensed contractors. DO NOT include the builders risk insurance in the quotes as the SBA cannot finance this, and DO include sales tax.
- New equipment purchase will require an estimate/invoice.
- Used equipment purchase will require an appraisal.



Debenture Funding and Loan Closing

The funding source (called a debenture) for the SBA loan portion are bonds that are issued to investors on Wall Street. This debenture funding process takes place once per month. The interest rate on the SBA loan is set at the time of debenture funding. This occurs 60-90 days after bank funding, or project completion if construction, tenant improvements, or equipment are involved.

Prepayment Fee

There is a prepayment fee on the SBA loan for the first 10 years. This is a declining fee, and decreases 10% in each of the first 10 years of the loan (the first 5 years for 10-year debentures).

The fee is calculated by multiplying the bond rate by the outstanding loan balance in year one. In year two, the calculation is 90% of the bond rate multiplied by the outstanding loan balance. In year 3, 80% of the bond rate, and so on. After year 10, there is no prepayment fee.

No additional principal payments can be made on the SBA loan during the entire term.

- The investor that purchases the bond is guaranteed to receive interest twice yearly (through the next semi-annual month) from when the debenture is funded. If paying the SBA loan off prior to maturity, it is best to pay off the balance in the month proceeding one of the semi-annual months, to minimize the amount of interest that will be included in the payoff.
- Assumption option—to avoid the prepayment fee, the loan may be assumed by a qualified SBA applicant.



Monthly SBA Loan Payment

The payment is drafted by ACH on the 1st business day each month from an account designated by the borrower.



SBA 504 Loan Refinance without Expansion Program

Qualified Debt

The SBA may approve a refinancing project of a qualified debt that does not involve an expansion. Qualified Debt means a commercial loan that:

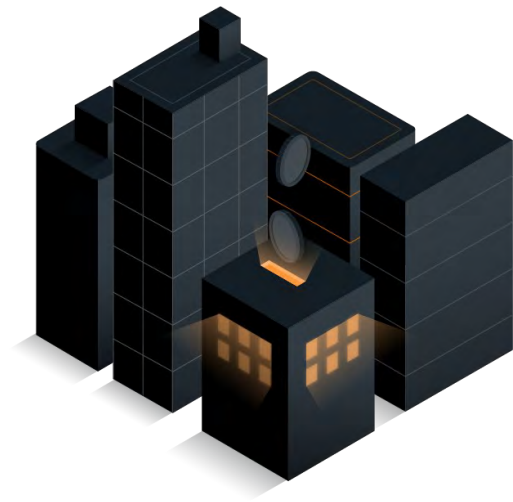
- Substantially all (75% or more) of the proceeds of the existing debt was used to acquire an Eligible Fixed Asset(s) and the remaining amount (25% or less) was incurred for the benefit of the small business seeking refinancing; or
- If the Eligible Fixed Asset(s) was originally financed through a commercial loan (hereafter the “original loan”) that was subsequently refinanced one or more times:
 - Substantially all (75% or more) of the proceeds of the original loan was used to acquire an Eligible Fixed Asset(s) and the remaining amount (25% or less) was incurred for the benefit of the small business seeking the refinancing; and
 - The existing debt is the most recent refinancing of the original loan.

Loan To Value

A Refinancing Project is the fair market value of the Eligible Fixed Asset(s) securing the Qualified Debt and any other fixed assets acceptable to SBA. For Projects that refinance only Qualified Debt, the maximum loan to value of the Refinancing Project allowed is 90%. Borrower can provide additional cash or other fixed asset collateral acceptable to SBA so as not to exceed 90% LTV.

- For any projects that include the financing of Eligible Business Expenses (EBE), a maximum 90% loan to value of the Refinancing Project will apply. The value of the Refinancing Project may not be increased by adding additional collateral.

Eligible Business Expenses (EBE)



Eligible Business Expenses are limited to the operating expenses of the business that were incurred but not paid prior to the date of application or that will become due for payment within 18 months after the date of application. EBE includes accrued expenses such as salaries, rent, utilities, inventory, and other expenses of the business that are not capital expenditures. The EBE must be itemized (a gross figure is not acceptable).

EBE may not include any other debt of the business, except that of business lines of credit and business credit card debt may be included so long as:

- Loan proceeds are not used to cover any personal expenses;
- If the line of credit and/or credit card was used for personal

expenses, the Applicant must identify which purchases were for personal expenses and deduct that amount from the amount to be refinanced as an EBE;

- The line of credit and/or credit card are in the name of the small business; and
- The Applicant and the CDC certify in the loan application that the debt being refinanced was incurred exclusively for EBE.

What are NOT Eligible Business Expenses:

- Acquiring new business, or new property;
- Financing change in ownership with buyout or buy down of a co-owner;
- Paying off or paying down debt owed to owner(s);
- Paying an owner's personal expenses or salaries

If the Qualified Debt is not fully satisfied by the funding provided by the Refinancing Project, the lender of the Qualified Debt must take one of the following actions, or some combination thereof, to address the deficiency:

- Forgiveness of all or part of the deficiency;
- Acceptance of payment by the Borrower; or
- Require the Borrower to execute a note for the balance or any portion of the balance. This note must be subordinate to the 504 loan if secured by any of the same collateral.

Eligibility of Debt to be Refinanced

Eligible Fixed Assets are one or more long-term fixed assets, such as land, building, machinery, and equipment, acquired, constructed, or improved by a small business for use in its business operations. Funding for Refinancing Project must come from 3 sources based upon the current Fair Market Value on fixed assets serving as collateral for the Refinancing Project. The source from the Third Party Lender is at least as much as the 504 debenture and no more than 40% is from the 504 debenture. Borrower must contribute a minimum of 10%. SBA may approve a Refinancing Project of a Qualified Debt that does not involve an expansion as follows:

- Was incurred not less than 6 months prior to the date of application for the benefit of the small business that is seeking the financing and has been secured by Eligible Fixed Assets(s) for at least 6 months; Borrower must be current on all payments due on existing debt for not less than 1 year preceding the date of refinancing or at least the available number of months the debt has been in place (6 months minimum).
- Business must have been in operations more than 2 years at time of application. A change in ownership may be considered a new business; a new business is not eligible.
- May consist of a combination of two or more loans, providing that each of the loans satisfied the Qualified Debt Requirements
- Refinance without Expansion does not have to have a substantial benefit requirement unless the debt is existing Federally Guaranteed Debt (e.g. SBA 7(a) debt)
- The loan to be refinanced involves a creditor that is not in a position to sustain a loss causing a shift to SBA of all or part of a potential loss from existing debt. Lender must certify in writing, and the CDC must obtain a copy of the transcript of account, or equivalent, for the Qualified Debt being refinanced to document no shift to SBA of all or part of a potential loss. Authorization expires in 9 months.
- Existing 504 loans can be refinanced if both the Third Party Loan and 504 loan are being refinanced or the Third Party Loan has been paid in full.
- Borrower must be able to demonstrate compliance with *13 CFR 120.131(b)* for existing buildings as of the date of application for assistance. Operating Company must demonstrate that it occupies 51% or more of rentable square feet of project real estate at time of application.
- Federal Guaranteed Debt (such as a 7(a) loan) may be refinanced. The existing Lender must certify either unable or unwilling to modify the current payment schedule, and
 - If the loan being refinanced is guaranteed by a Federal Agency other than SBA, the CDC must document in writing that the refinancing of the Federally-guaranteed loan is permissible under the other Federal agency's requirements or is otherwise approved by the other Federal agency, and
 - In the case of same institution debt, and existing 7(a) Lender must also certify that lender is unable to modify the terms of the existing loan because a secondary market investor will not agree to modify the terms.

SBA 504 Loan Refinance with Expansion Program

Project involves Expansion

If the Project involves expansion of an Applicant, an amount of existing indebtedness that does not exceed **100%** of the cost of the expansion may be refinanced. The debt being refinanced will be added to the expansion costs to establish the total project costs. A “Project involves Expansion” if it involves acquisition, construction, or improvement of land, building, or equipment for use by the Applicant.

Eligible Fixed Assets

- Substantially all (75% or more) of the proceeds of the existing debt was used to acquire an Eligible Fixed Asset(s) and the remaining amount (25% or less) was incurred for the benefit of the small business seeking refinancing; or
- If the Eligible Fixed Asset(s) was originally financed through a commercial loan (hereafter the “original loan”) that was subsequently refinanced one or more times:
 - Substantially all (75% or more) of the proceeds of the original loan was used to acquire an Eligible Fixed Asset(s) and the remaining amount (25% or less) was incurred for the benefit of the small business seeking the refinancing; and
 - The existing debt is the most recent refinancing of the original loan.



Eligibility of Debt to be Refinanced

Eligible Fixed Assets are one or more long-term fixed assets, such as land, building, machinery, and equipment, acquired, constructed, or improved by a small business for use in its business operations. Funding for Refinancing Project must come from 3 sources based upon the current Fair Market Value on fixed assets serving as collateral for the Refinancing Project. The source from the Third Party Lender is at least as much as the 504 debenture, but no more than 40% of the Total Project Costs can be from the 504 debenture. The Third Party Lender can be over 40%, borrower must contribute 10% or 15% as determined by project scope. SBA may approve a Refinancing Project of a Qualified Debt that involves an expansion as follows:

- The existing indebtedness is collateralized by fixed assets and incurred for the benefit of the small business concern.
- The small business for which the debt is being refinanced must be the same small business for which any new Project costs are incurred. The debts may be owned by an Operating Company, an EPC, or both.
- Financing will be used only for refinancing existing indebtedness or costs related to the Project financed. Debt being refinanced does not need to be for assets at the same location or for the same type of property as the Project being financed as long as the operation at the other location has the same NAICS code as the operation at the Project location.
- Existing 504 loan can be refinanced if both the Third Party Loan and 504 loan are being refinanced or the Third Party Loan has been paid in full, and the 504 loan needs to be refinanced to the Project Property. Justification must be documented.
- An existing 7(a) loan may be refinanced in whole or in part only if verification is provided that present lender is either unable or unwilling to modify the current payment schedule. If same institution debt is a 7 (a) lender, the loan will be eligible for 504 refinancing only if the lender is unable to modify the terms of the existing loan because a secondary market investor will not agree to modify terms.
- Borrower has been current on all payments due on existing debt for not less than 1 year preceding the date of refinancing.
- Costs essential to the refinancing, such as prepayment penalties, financing fees or other refinancing costs, required by the original terms of the debt instrument, may be included in the debt refinance portion of the Project.
- The total debt being refinanced may consist of one or more loans.
- The refinance must be a substantial benefit, meaning that the portion of the new installment amounts attributable to the debt being refinanced must be less than the existing installment amount(s). The total installment amount is determined by adding the two installment amounts attributable to the refinancing using the interest rate of the most recent debenture funding on the 504 loan and the committed interest rate of the Third Party Lender loan. The total amount must be less than the existing installment amounts(s).
- If indebtedness is being refinanced is debt of the Third Party Lender “TPL”, or any of its affiliates (same institution debt), the TPL must certify in its commitment letter that it is not in a position to sustain a loss causing a shift to SBA of all or part of a potential loss from existing debt.
- The applicant for refinancing has been in operation for all of the 2 year period ending on the date of application.
- A 504 Project cannot be approved to refinance debt owed: To an Associate, SBIC or New Markets Ventures Capital Company

504 Document Checklist

Business Information

- | | |
|---|---|
| ☐ Financial Statements (2 years) | ☐ Federal Tax Returns including K-1s (2 years) |
| ☐ Balance Sheet | ☐ Business Debt Schedule |
| ☐ P & L Statement | ☐ Corp/LLC/Partnership Documents |
| ☐ AR & AP Aging | ☐ Business License (proprietorships) |
| ☐ Interim Financial Statements (current - 90 days) | ☐ Franchise Agreement (if applicable) |
| ☐ Previous Government Financing | |

Personal Information (Each owner of 20% or greater)

- | | |
|--|---|
| ☐ Personal Financial Statement | ☐ Personal Tax Returns (Most recent, include W-2s) |
| ☐ Personal Resume/Personal History Form | |

Real Estate Information

- | | |
|---|---|
| ☐ Real Estate Purchase Agreement or Settlement Statement | ☐ Construction Cost Budget or Invoices |
| ☐ Existing Environmental Studies | |



Northwest Business Development Association

509.458.8555

info@nwbusiness.org

**9019 E. Appleway Blvd., Ste. 200
Spokane Valley, WA 99212**

SBA's Premiere 504 Lending Partner

www.nwbusiness.org