

FREQUENTLY ASKED QUESTIONS - SBA 504 LOAN PROGRAM

1. What businesses are eligible for a SBA 504 loan?

Capital Partners through the U.S. Small Business Administration (SBA) provides financing for a wide range of businesses.

To be eligible, the business generally must be operated for profit and fall within the size standards set by the SBA. Under the 504 program, a business qualifies as small if it does not have a tangible net worth in excess of \$7.5 million and does not have an average net income in excess of \$2.5 million, after taxes for the preceding two years. Loans cannot be made to businesses engaged in speculation or investment.

2. How does the SBA 504 loan program work?

The 504 program is designed to enable small businesses to create and retain jobs. One job must be created or retained for every \$50,000 of 504 loan proceeds.

Typically, a 504 project includes the following:

- A loan secured with a senior lien from a private-sector lender (bank) covering up to 50% of the project cost,
- A second loan with a junior lien from Capital Partners (Certified Development Company) covering up to 40% of the project cost,
- A contribution of at least 10% equity by the borrower; with loans for start-up companies or for special purpose buildings requiring an additional 5% (a combination of start-up and special purpose would require an additional 10%).

3. What is the maximum loan amount?

The maximum loan amount for the 504 portion of the loan is generally \$1.5 million, in some cases up to \$2 million may be loaned when the borrower is a minority (including women), if the business is located in a rural county or if the loan meets some other public policy goal. In addition, a \$4 million loan is available to small manufacturers whose production facilities are all located in the United States.

4. What expenses will a SBA 504 loan cover?

Proceeds from 504 loans must be used for the acquisition of fixed assets such as:

- Purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots, and landscaping.
- Constructing, modernizing, renovating or converting existing facilities.
- Purchasing machinery and equipment.
- Interest on interim loans, professional fees, and soft costs related to the project.

The 504 program cannot be used for working capital, inventory purchases, debt consolidation or refinancing.

5. What will the term and interest rate be on the 504 loan?

Terms of 10 and 20 years are available. The 504 debentures are sold on the secondary market and interest rates are set at a fixed rate at the time the loan is funded.

6. What fees are involved?

Fees total approximately 2.67% of the debenture and are financed with the loan. This fee includes a CDC processing fee of 1.5%; a guaranty fee, a funding fee, and an underwriting fee.

The bank is required to pay to the SBA a 1/2% fee on the 1st lien loan amount.

Interest rates and fees on the first mortgage are negotiated directly with the lender.

7. Are there any pre-payment penalties?

The 504 debenture has a re-purchase premium (RP) during the first ten years of the 20-year debenture period. This is a declining premium (10/9/8/7/6/5/4/3/2/1) that is calculated based on the year of the loan, remaining balance (B) and interest rate (I). For example, if a debenture is repurchased in year 5, the repurchase premium would be as follows: $RP = B(I \times .60)$. A 10-year debenture has a re-purchase premium during the first five years (10/8/6/2).

8. What type of collateral is expected to be pledged?

Generally the project assets being financed are used as collateral. Personal guaranties are required from all principal owners of the business (with ownership of 20% or more). Liens on personal assets of the principals may also be required.

9. What does the SBA look for in a loan applicant?

- Good character, management expertise, and the commitment necessary for success.
- Adequate equity investment in the business and sufficient funds to operate the business on a sound financial basis (for new businesses, this includes the resources to withstand start-up expenses and the initial operating phase).
- Ability to repay the loan on time from the historical or projected operating cash flow.
- Feasible business plan.

10. What government paperwork or forms will eventually be needed?

Capital Partners will prepare the SBA loan application and any other forms to be submitted to the SBA. There is no packaging fee.