

SBA 504

Small Business Financing Quick Reference Guide



What is the SBA 504 Loan Program?

Co-lender financing for growing and expanding small businesses designed to facilitate the acquisition of capital fixed assets, such as commercial real estate and/or long-life machinery and equipment.

Typical Loan Structure

- Finance up to 90% of a project as follows:
 - 50% commercial lending partner (1st mortgage holder).
 - 40% FFCFC/SBA (2nd mortgage holder).
 - 10% borrower equity injection.

Commercial lending partners also have access to the **504 Bridge Loan Program** (Florida only), which provides bridge loan funds to cover all or part of the second mortgage during the interim period of the project until the permanent SBA second mortgage takeout occurs. For more information, visit www.ffcfc.com.

Who Can Qualify?

- Most for-profit, credit worthy, owner-occupied small businesses.
- Maximum tangible net worth of not more than \$15 million.
- Average net income after Federal income taxes (excluding carry-over losses) for the two full fiscal years prior to application of not more than \$5 million.
- Manufacturers (size standards vary; please contact Florida First Capital for eligibility details).

Eligible Use of Funds

- Land and acquisition of existing building or new construction.
- Building expansion/renovation.
- FF&E and improvements (parking lots, landscaping, etc.).

Application Checklist

- Personal financial statement for all owners of 20% or more.
- Completed FFCFC SBA 504 Loan Application Form for all owners, corporate officers and directors.
- Last 2 years of personal tax returns for all owners of 20% or more.
- Resume for all owners, key employees and corporate officers.
- Last 2 years of corporate tax returns.
- Current P&L, balance sheet and debt schedule for existing business (AR/AP if applicable).
- Executed purchase agreement or letter of intent.
- Construction bid and FF&E quotes from a third party, if applicable.
- If any owners have affiliation in any other companies, provide the last 2 years of tax returns and current interim financial statements on those companies.
- If the business is a new business or expanding, provide 2 years of projections.

- Green energy initiative projects.
- Long-life fixed machinery and equipment.
- Debt refinancing (with and without expansion).
- Associated fees and soft costs may be financed in the loan.

Ineligible Use of Proceeds

- Working capital, inventory, goodwill assets, business stock acquisition and franchise fees.

Loan Amounts (SBA Portions)

- Up to \$5 million of aggregate SBA eligibility on standard 504 projects and up to \$5.5 million per 504 energy efficient green project not exceed \$16.5 million in the aggregate.
- Up to \$5.5 million per eligible small manufacturing project with no limit on total SBA dollars available.
- No maximum limit on commercial lending partner's loan portion.

Interest Rates & Terms

- Below-market, fixed interest rates (no ARMs).
- 10-, 20- and 25-year terms available for commercial real estate and/or long-life fixed machinery & equipment.
- Terms are fully amortized over the life of the loan (no balloons).
- Interest rate locks in when the debenture is funded.

Borrower Contribution

- 10% in most cases.
- 15% for start-up businesses (less than two years in operation) or special purpose properties.
- 20% if the project is both a start up and as well as a special purpose property.

Owner Occupancy Requirements

- 51% of the space for existing facilities/buildings.
- For new construction, the applicant must occupy 60% of the rentable property, may permanently lease to a third party up to 20% and temporarily lease an additional 20% with the intention of using some of the additional 20% within 3 years and all of it within 10 years.

Prepayment Penalties

- Declining scale prepayment penalties for the first 10 years of a 20- or 25-year amortization.
- Declining scale prepayment penalties for the first five years of a 10-year amortization.

Sample 504 Structure for a \$1 Million CRE Purchase with Improvements

Project Costs (Uses of Funds)

Land & Existing Building	\$850,000
Improvements/Renovations	\$50,000
Contingency Reserve (Renovation Construction)	\$5,000
Furniture, Fixtures & Equipment	\$40,000
Professional Fees/Soft Costs	\$30,000
Estimated Closing Costs	<u>\$25,000</u>
TOTAL:	\$1,000,000

Project Financing (Source of Funds)

Commercial Lending Partner	50%	1st Mortgage	\$500,000
FFCFC/SBA	40%	2nd Mortgage	\$400,000
Borrower Equity Injection	10%		<u>\$100,000</u>
TOTAL:			\$1,000,000

504 Debenture & Fees

Net Proceeds	\$400,000
CDC Fee (1.5%)	\$6,000
Upfront SBA Guarantee Fee (.5%)	\$2,000
Attorney's Fee and Misc. Closing Costs	\$3,500
Investment Bank Funding Fee (.25%)	\$1,000
Investment Bank Underwriting Fee (.4%/25yr & 20yr; .375%/10yr)	<u>\$1,660</u>

Financed:

TOTAL: \$414,160

SBA LOAN - GROSS DEBENTURE: \$415,000

(Rounded Up)

Residual Paid to Borrower: \$840

Note: SBA 504 loans offer attractive below-market, fixed interest rates. 504 loans are funded by the sale of U.S. Treasury bonds (debentures) which are pooled and sold on Wall Street each month. The 504 effective interest rate – the rate borrowers pay – is comprised of the debenture rate (which is pegged to an increment above the current market rate for Treasury issues) and ongoing carrying costs of the 504 program as set by the SBA. Visit www.FloridaFirst.com for current SBA 504 effective interest rates.

Frequently Asked Questions

Q: What is the definition of a new business?

A: A new business is a business that has been in operations for 2 years or less at the time the loan is approved. A business that has been in operation for more than 2 years at the time the loan is approved may be considered a new business if it is a change of ownership that will result in new, unproven ownership/management and increased debt unrelated to business operations. Operations are deemed to begin when the business begins generating revenue from its intended operations.

Q: Are special use properties allowed?

A: Yes. A limited-market property has a unique physical design, special construction materials or a layout that restricts its utility. Businesses with a limited or special purpose property must inject 15%.

Q: Can I refinance a loan under the 504 Program?

A: Yes. The 504 Debt Refinancing Program allows small business owners to refinance up to 90% of the current appraised property value without the requirement of expansion. Eligible business operating expenses (cash-out option) may also be included.

Q: How long does it take to get a 504 loan approved?

A: Approximately 10 working days.

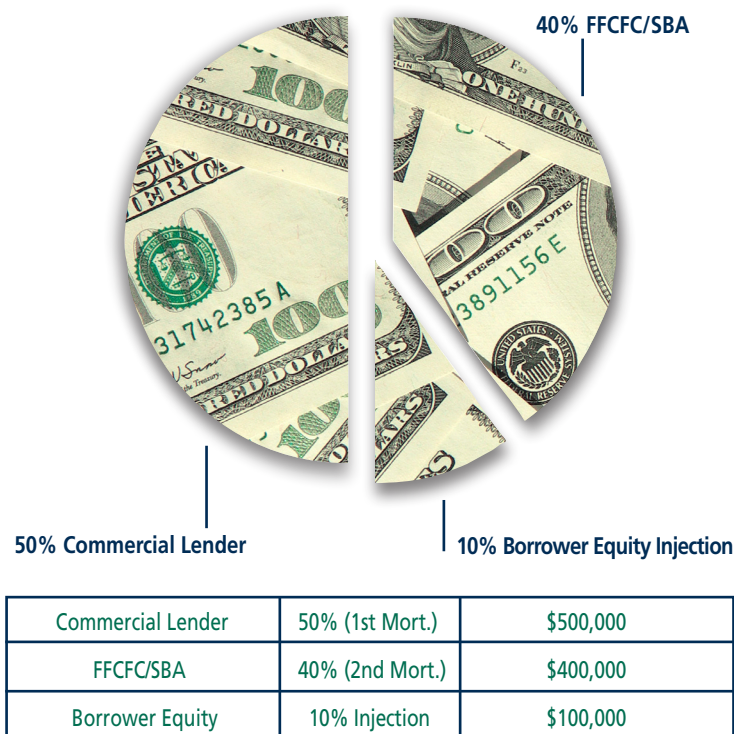
Q: How long does it take to close a 504 loan?

A: Approximately 45 to 60 working days on a straight acquisition project. Closing times may vary depending on the complexity of the project.

Q: What are the SBA fees for a 504 Loan?

A: 2.65% plus attorney's fees (standard 504 loans).

Typical SBA 504 Loan Structure \$1 Million Project Example



Contact me to learn more about the excellent benefits of the SBA 504 Loan Program for small businesses.

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