

SBA 504



Business Finance Group Inc.

“The Money That Makes America Work”

presented by:

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Why Do Clients Buy Buildings?

- **Business Reasons:**
 - Secure a good location in a growing city
 - Customers will always know where to find them
- **Financial Reasons:**
 - Fix occupancy costs today
 - Tax benefits and tax credits
- **Personal Reasons:**
 - Personal wealth building – property appreciation
 - Potential retirement savings plan – once mortgage paid off



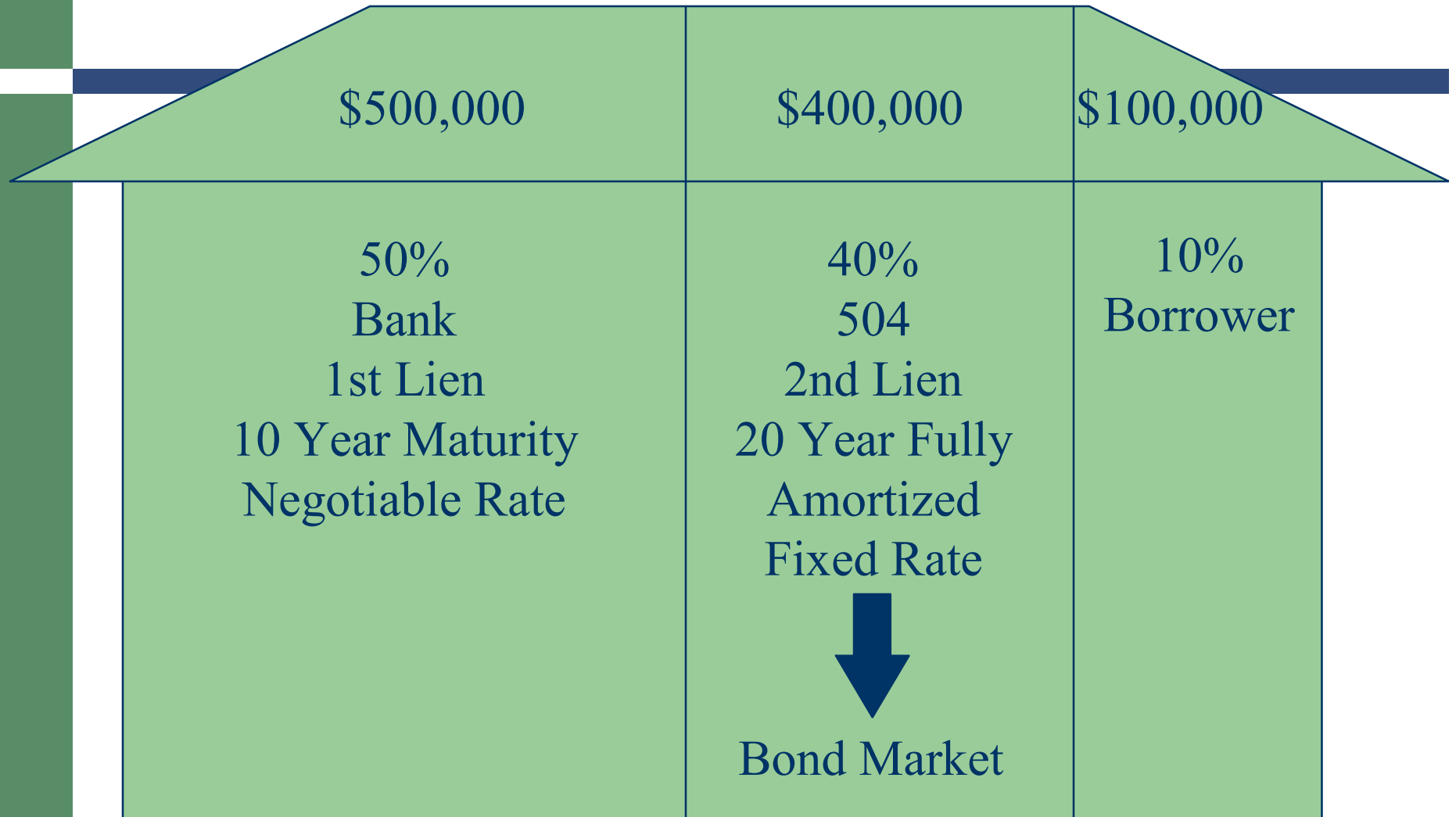
What is 504 ?

- Economic Development Loan Program
 - Finances Fixed Assets for Healthy, Expanding Small Businesses
- Community Benefits:
 - Jobs Created or Retained
 - Increased Tax Base

Typical 504 Structure \$1,000,000



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Interest Rate

6.116%

All-In Fixed Rate for 20 years

March 2007 Bond Sale



Misperceptions about SBA Loan Programs

- Costly?
 - There are fees but most can be included in loans – easily offset by lower rate of 504 loans
 - Other costs normally paid in cash can also be included
- Paperwork?
 - About same as bank up front – often less.
- SBA ‘intrusion’ into business operations?
 - No inspections, staffing dictates, limits on business decisions
- Time-consuming?
 - With completed application package, we can process a loan in 15 business days



How do I Find a Bank?

- Finding a Bank for the 50% Piece
 - We work with any bank
 - With over 1,500 approvals, we know the banks and who is most likely to approve your project
 - We share information with the bank – you only provide information once
- Bank's risk is low – 50% loan to value – pricing is generally competitive
- Bank uses their own documents and processes



How Much Paperwork is Needed for a 504 Loan?

- Essentially the same information that any commercial lender will require including:
 - Tax returns on the business
 - Projections if start-up business
 - Personal financial statement and tax returns for owners
 - Brief History/description of business and owners' resumes
 - Purchase Contract or Letter of Intent, construction/renovation estimates
- Application/Checklist on line at www.businessfinancegroup.org
- How long does it take?
 - At BFG, 10 days for our approval, 5 days for SBA approval



What Can be Financed with 504?

- **Real Estate (owner occupied)**
 - Existing Buildings
 - Additions
 - Major Renovations
 - Purchase Land & Building Construction
- **Machinery & Equipment**
 - Furniture, office equipment, etc.
- **Soft costs**
 - Title searches and title insurance
 - Survey
 - Appraisal and environmental reports
 - Recording taxes



What are the 504 Requirements?

Occupancy

- Existing Building = 51%
- New Construction = 60%
 - » 20% permanently leased;
 - » 20% to be occupied in 10 years

Down Payment

- Typical = 10%
- Start-up = 15%
- Special Use = 15%
- Both = 20%

Project Size

- Min = \$200,000
- Max = ????
- Max 504 Loan
 - \$1,500,000 normally
 - \$2,000,000 public policy
 - \$4,000,000 small manufacturer
- Bank Loan can exceed 50%
- Our Max Project = \$16 Million



Which Businesses are Eligible for 504?

- For Profit
- “Small” Business
 - Net Worth < \$7.5 million
 - After Tax Income < \$2.5 million (average for last 2 years)
- Creates Jobs Or Meets a Public Policy Goal
 - Woman, Minority or Veteran Owned
 - Commercial Revitalization
 - Rural
 - Increased Productivity – Assist Manufacturers
 - Displaced Business
 - Export
 - Compliance with Environmental Laws



Where Does Equity Come From?

- Cash
- Injection can be borrowed money from:
 - Home equity line
 - Working Capital line or term loan from bank
 - Other client assets
 - Gift letters or loans from family/friends
 - Seller note:
 - If collateralized by project property – term must be twenty years
 - If not collateralized, term can be less, as long as cash flow supports debt
- Existing equity in project land/building



What are we looking for in evaluating your loan request?

- **Existing Business:**
 - Cash Flow that will repay the debt
 - good personal credit
 - experienced management
- **Start-up Business:**
 - Strong, experienced management
 - well-thought out business plan
 - reasonable projections that demonstrate adequate cash flow coverage
 - adequate working capital
 - good personal credit



504 Advantages – RE-CAP

- Up to 90% financing available
- Financing can include both hard & soft costs
- Low LTV allows bank to be competitive on pricing/terms
- Bank terms will be better than conventional loan
- Below market fixed rate on 504 portion
- 20 year fully amortizing 504 portion
- With BFG, process is quick & easy



Sample Project

Project Costs:

Land/Bldg	\$500,000
Renovation	425,000
Equipment	50,000
Soft Costs:	
Recording taxes	15,000
Title Charges	3,500
Appraisal	3,500
Environmental	3,000
TOTAL	\$1,000,000

Financing Sources:

Bank	\$500,000	50%
504	400,000	40%
<u>Borrower</u>	<u>100,000</u>	<u>10%</u>
TOTAL	\$1,000,000	100%

NOTE: If conventional bank financing, the typical down payment would be:
\$195,000 (20% of hard costs)
+ the \$25,000 in soft costs
= **\$220,000**



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Need More Information?

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- Check our web site at www.businessfinancegroup.org for more info on the program and our loan application.