

# SBA 504 Refinance Breakfast

April 12, 2011

Lancaster Country Club



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# **Welcome & Introductions**

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**David K. Nikoloff**  
**President**  
**EDC Finance Corporation**

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## Advocate

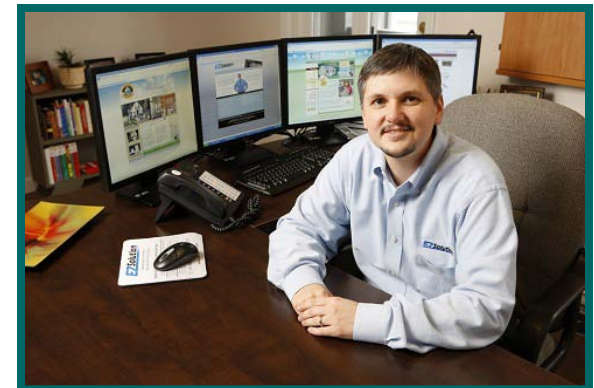


## EDC Finance Corporation & SBA 504

- Certified Development Company designation – 04/08
- First Project – EZ Solutions, 11/08
- Progress to date:

<b>SBA 504 Activity</b>	<b>Projects Approved</b>	<b>Projects Closed</b>
Number of Loans	19	13
Gross Loan Amount	\$11,359,000	\$7,271,000
Total Project Investment	\$33,088,685	\$20,509,685

**EZSolutions**  
Tom Malesic



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# SBA 504 Projects

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**INTER!ORS**  
Gregg & Todd Lehman

**Dinse Dental Care**  
Daniel & Sau-Ling Dinse



**Central Aluminum Supply**  
Pete McElvogue & Louis Lelli

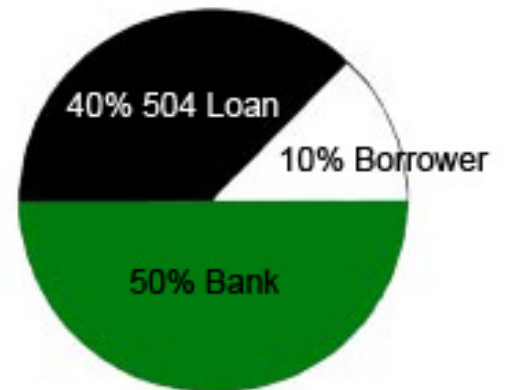


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# SBA 504 Basics

**John W. Biemiller**  
Vice President  
EDC Finance Corporation



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## **SBA 504 LOAN BASICS**

### **Who is Eligible?**

- Most for-profit, small businesses, including agriculture production
- Tangible net worth <\$15 million
- 2-year average net income <\$5 million



**Crescendo Training Centre**  
Kristine Phelps

### **Uses and Purposes of Funding**

- Land and building acquisition
- Building construction and renovation
- Purchasing/upgrading long-term machinery and equipment

### **Amounts**

- Up to \$5 million or 40% of total eligible project costs (whichever is less)
- Up to \$5.5 million for manufacturers and certain qualifying projects

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# SBA 504 LOAN BASICS

## Terms

- Market interest rate (average rates based on 5- and 10-year Treasury notes plus a fixed rate spread)
- 20-year fixed rate term for real estate – **currently 5.90%**
- 10-year fixed rate term for machinery and equipment – **currently 4.90%**
- Must create/retain one job for every \$65,000 borrowed (\$100,000 for manufacturers)

## Fees

- 2.0%-2.5% commitment and closing fee—funded by debenture
- 0.5% participation fee based on first mortgage loan amount

**Hanover Cold Storage**  
Bill Martell



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## TYPICAL PROJECT STRUCTURE

Funding Source	Percent Participation	Example	Collateral
Bank	50%	\$500,000	1 <sup>st</sup> Mortgage
SBA 504	40%	\$400,000	2 <sup>nd</sup> Mortgage
Equity	10%*	\$100,000	
TOTAL	100%	\$1,000,000	

\* Add 5% for Special Purpose Properties and 5% for New Businesses

**Rocky Springs Bowling**  
Fred & Sherry O'Neill



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# **New SBA 504 Refinance Guidelines**

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**Lyle D. Hosler**

**Project Manager**

**EDC Finance Corporation**



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## SBA 504 NEW REFINANCE GUIDELINES


- **Timeline:** Approved – Sept., 2010  
Final rules implementation – Feb., 2011  
Loans must be approved by – Sept. 27, 2012
- **Amounts:** Up to \$5 million (\$5.5 million for manufacturers)  
in SBA debt per company & closely related  
affiliates
- **Availability:** \$7.5 billion available FYE 9/30/11  
\$7.5 billion FYE 9/30/2012
- **Loan Maturity:** No maturity limitation – Maturity before  
12/31/2012 rule has been waived
- **Scope:** Multiple projects, sites, and/or loans can be  
refinanced into 1 debenture project

## ELIGIBLE COSTS

- Refinanced debt (incurred 100% to benefit small business)
- Professional Fees
- Points, fees, prepayment penalties, interest on interim loan

## ELIGIBLE TYPE OF DEBT


- At least 85% of refinanced debt must have been originally used for 504 eligible purposes (e.g. acquisition of R.E., construction, related soft costs, capital equipment, etc.)
- Up to 15% may be used to refinance other business debt (e.g. working capital, vehicle loans, etc.)
- Can only refinance commercial loans and seller financing currently secured by real estate or equipment



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## **INELIGIBLE PROJECTS, COSTS AND SITUATIONS**

- Loan to Businesses less than 2 years old
- Loans originated less than 2 years ago
- Expansion projects (must use regular 504 guidelines)
- Loans that are currently on deferment status or that have been more than 30 days past due in last 12 months
- Existing SBA 504, SBA 7a and/or USDA loans
- Existing third party (bank) loans in traditional 504 projects
- Associate or inter-company debt (except real estate holding entities)
- No “cash out” refinancings



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## **SOME BASIC REQUIREMENTS**

- Need Appraisal of assets that is less than 6 months old
- Must meet all SBA environmental requirements
- Borrower must occupy 51% of property
- SBA loan must have a 90% Loan-To-Value
- Loans must be closed within 6 months of approval

## STRUCTURE

- **Bank:** 50% of appraised value + 50% of closing costs.  
Collateral – 1<sup>st</sup> lien
- **SBA 504:** Balance of debt up to 90% Loan-to-Value +  
balance of eligible closing costs  
Collateral – 2<sup>nd</sup> lien
- **Equity:** 10%+ (e.g. company cash or collateral, project or  
other R.E. (com./res.), and/or equipment)
- **Loan-to-Value:** Combined 90% LTV maximum plus refinance  
costs is goal

## JOBS

- Must create 1 Full-Time job for every \$65,000 borrowed,
- Or Retain 1 Full-Time job for every \$65,000 borrowed,
- Or Retain 1 FTE/PT job for every \$65,000 borrowed,
- Or look to EDC Finance Job Portfolio (special exceptions)

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## EXAMPLE – Basic

Appraised Value: \$1,000,000  
Outstanding Debt: \$900,000

### Refinance Structure

Bank	\$500,000	(50% of appraised value)
EDC Finance	\$400,000	(debt balance up to 90% LTV)
Borrower Cash	<u>\$ 0</u>	
Total	\$900,000	

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## EXAMPLE – Basic Including Refinance Costs

Appraised Value: \$1,000,000  
Outstanding Debt: \$900,000  
Refinance Costs: \$10,000

	Refinance Structure	Refinance Costs	Final Structure
Bank	\$500,000	\$5,000	\$505,000
EDC Finance	\$400,000	\$4,000	\$404,000
Borrower Cash	\$ 0	\$1,000	\$1,000
Total	\$900,000	\$10,000	\$910,000

## IF REFINANCE DEBT PACKAGE > 90% LTV

- Additional Cash needed
- Existing lender forgiveness of debt needed
- New subordinate note to cover the deficiency needed

## INTEREST RATE PREMIUMS

- 20-year – Approximately 35 basis points
- 10-year – Approximately 45 basis points
- Current Refinance rates as of **April 5, 2011:**

20-Year – **6.25%**

10-Year – **5.35%**

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## EXAMPLE – Basic Over Collateralized with Refinance Costs

Appraised Value: \$1,000,000  
Outstanding Debt: \$700,000  
Refinance Costs: \$10,000


	Refinance Structure	Refinance Costs	Final Structure
Bank	\$500,000	\$5,000	\$505,000
EDC Finance	\$200,000	\$5,000	\$205,000
Cash/Other	\$ 0	\$0	\$0
Total	\$700,000	\$10,000	\$710,000

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## EXAMPLE – Basic Under Collateralized with Refinance Costs

Appraised Value: \$1,000,000  
Outstanding Debt: \$1,000,000  
Refinance Costs: \$10,000

	Refinance Structure	Refinance Costs	Final Structure
Bank	\$500,000	\$5,000	\$505,000
EDC Finance	\$400,000	\$4,000	\$404,000
Cash/Other	<u>\$100,000</u>	<u>\$1,000</u>	<u>\$101,000</u>
Total	\$1,000,000	\$10,000	\$1,010,000



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## **APPLICATION COLLECTION NEEDS**

- **Current loan note** – full genealogy and history
- **Current mortgage or lien instruments** (e.g. UCC statements, security agreements, etc.)
- **Recorded deed** (EDC can obtain online)
- **Transcript of account** for past 12 months for new bank refinancing
- **Transcript of account** for entire loan history for same institution refinancing
- **Bank Certifications** of no knowledge of default or likely default in bank commitment letter
- **Evidence of use of original debt** (e.g. R.E. settlement sheets, AIA documents, construction invoices, equipment invoices, commitment letters, letters of intent, etc.)
- **Refinanced lender certification** – current balance, collateral release, and any adverse change

## WHAT IS A TRANSCRIPT OF ACCOUNT?

An acceptable transcript of account shows the following:

- Name of lender
- Date payment is due
- Date payment is made/posted
- Amount of payment
- Original balance
- Remaining/current balance
- Any late fees\*
- \*if late fees exist, confirm not 30 days past due

# QUESTIONS...

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Hess Dairy Farm  
Linda, Joe & Aaron Hess

[www.edcfinancecorp.com](http://www.edcfinancecorp.com)

# For more information...

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