

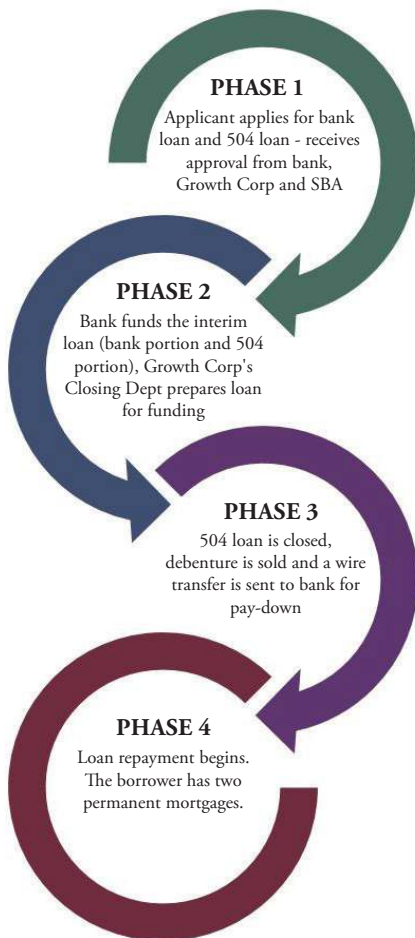


SBA 504 LOANS

A Lenders Guide to Navigating the SBA 504 Loan Process

Whether this is your first experience with the SBA 504, or you've successfully completed numerous loans, we hope you find this document helpful in navigating the process. Our primary goal is to answer the question we hear so often, "What is the lender's role in this process?"

THE 504 LOAN PROCESS



A CLOSER LOOK AT PHASE 1

Eligibility

The first step is to determine if your project is eligible for the 504 Loan Program. For a quick reference, use the four questions at right or contact Growth Corp directly.

Application

It is helpful to bring a Growth Corp Loan Officer in early for a joint meeting with your client to go over the 504 Loan Program, ensure eligibility and assist with the application process.

Approvals

1. Your bank approves the loan
2. Growth Corp approves the loan for submission to SBA
3. SBA approves the loan and issues a Loan Authorization

POST APPROVAL

Upon receiving approval from SBA, please read through the entire Loan Authorization document, as it sets forth the terms and conditions under which SBA provided a guaranty on the loan. It also outlines servicing activities and loan compliance requirements for the term of the loan. You and your borrower will also receive the following invoices:

- **THIRD PARTY LENDER FEE**
SBA requires this one-time participating lender fee equal to 0.5% of the amount of the lender's permanent loan.
- **COMMITMENT FEE**
This fee is essentially a deposit: the commitment fee, along with the application deposit, will be used to pay for the closing costs, including, but not limited to, credit reports, title insurance, recording and search fees, Growth Corp legal fees, and all other

WILL YOUR PROJECT QUALIFY?

If you answer "yes" to the following questions, your project will likely qualify for the 504 Loan Program:

- Will the project finance fixed assets such as building construction, the purchase of an existing building and/or long-term equipment?
- Is the business for-profit and located in the United States?
- Does the business, including affiliates, have a tangible net worth of less than \$15 million and after-tax profits, averaged over the last two years, of less than \$5 million?
- Will the business occupy at least 51% of the project property for existing buildings or 60% of the project property for new construction? Or, will the equipment be used for business operations?

out-of-pocket costs. Growth Corp will send a statement detailing the costs paid from these funds together with a refund of the balance, if any, after the loan is funded (Section III, Application Agreement). *Please note: the loan will not proceed with closing until these fees are paid in full.*



THOUSANDS OF LENDING INSTITUTIONS PARTICIPATE IN SBA 504 FINANCING EACH YEAR



504 BENEFITS FOR LENDERS

The 504 Loan Program insulates lenders from loss because banks only advance 50% of the financing and get first lien position on the loan

The 504 helps banks manage commercial real estate concentration issues, which allows for additional lending without 100% exposure

Utilizing the 504, lenders have the ability to offer borrowers payment stability with a 10- or 20-year low, fixed rate.

The 504's low 10% equity injection, and ability to finance total project costs, helps preserve deposits at your bank

504 Loans are not just for small businesses, so most for-profit businesses qualify, including middle market companies

ADVANCE & EQUITY

The bank provides the interim financing and must provide permanent financing for at least 50% of the 504 project, with a minimum commitment of at least half the 504 term.

SBA typically requires that borrowers inject 10% as a down payment on the total project. If the business is a startup, has had a change in ownership, or involves a single-purpose building, an additional 5% is required, or, if two or more of those criteria apply, an additional 10%.

THE BANK'S LOAN STRUCTURE: ONE LOAN OR TWO?

The main factor to consider is whether the project is:

1. ACQUISITION

If the project is a straight acquisition (very few build out requirements), then SBA's preference is to do two loans. The reason being is because with two mortgages, the title work will clearly show the loan amount ahead of the SBA 504 portion and SBA can then easily determine that the amount they are sending to the bank at closing is enough to pay off the interim loan.

2. CONSTRUCTION/RENOVATION

If the project involves renovations/ construction requiring at least 8-15 months to complete, SBA's preference is to do one loan. The reason is because of the different provisions. Therefore, the amount of a construction loan should be the sum of the term loan and the interim loan. Then, at closing, the bank should do one term loan for their portion and use the proceeds to pay down the construction loan. SBA can then look at the large construction loan, clearly see what the bank's term loan has paid down, and verify that the difference remaining matches the amount they are sending in 504 funds.

CLOSING

Shortly after receiving approval from SBA, expect a call from the Closing Officer assigned to your project. They'll introduce themselves, go over the time-lines and checklists and explain the closing/funding process.

PRELIMINARY CLOSING CHECKLIST

Your Closing Officer will provide a complete, project-specific checklist of items necessary for the closing of your loan. However, a few of the general items you can begin collecting in the meantime:

- Appraisal Completion Certificate
- Title Work
- Interim Note and Mortgage
- Organizational Documents
- Life Insurance Policy
- Settlement Statement
- Sworn Contractor's Statement
- Borrower's Equity Injection
- Equipment/Fixtures List and Cost Docs
- Occupancy Certificate
- Lease
- Financials
- Insurance Agent Contact Info

ITEMS TO COLLECT EARLY IN THE PROCESS

1. Life Insurance
2. Real Estate Appraisal - *U.S. Small Business Administration and Growth Corp must be listed as intended users*
3. Environmental Report

INTEREST RATE

The interest rate on 504 loans is determined at the time the 504 debenture pool is sold to the private market and is based on current market conditions, which fluctuate. This typically happens six weeks after the project is fully complete. All SBA 504 loans are funded using the same market sale process, so interest rates in any given month are the same nationwide...regardless of CDC.

ONGOING FEES

When the 504 loan is funded, the borrower will incur fees totaling approximately 2.15% of the 504 portion of the financing, and a fixed legal fee of \$2,500. However, these fees are included in the principal amount and financed over the term of the loan (i.e. they are **NOT** out-of-pocket expenses). *SBA's loan fees are determined by SBA and are needed to cover the cost of administering the 504 Loan Program.*

KEY POINTS FOR LENDERS

- The bank provides the interim financing until the deed is recorded
- The bank's term of loan (commitment) must be 1/2 of Growth Corp's bond, but no less than seven years for equipment or ten years for real estate
 - » Usually a 10-year commitment on real estate
 - » Likely 5-year adjustment (but can be floating or fixed)
 - » Amortization is usually 20-25 years
- Bank gets first lien on all project assets
- Bank's loan cannot be cross collateralized with any existing debts
- Advance is always based on the project costs
 - » Appraisal usually comes in at or around 90% of land and building cost
- The bank is asked to provide copies of its loan documents

