



# COMMON MYTHS

## SBA 504 LOAN PROGRAM

### MYTH #1: Successful businesses don't need an SBA 504 loan.

**FACT:** Many successful small business owners use SBA loans because these loans can offer more flexibility than conventional financing. Benefits include:

- Longer repayment terms - up to 25 years
- Low, fixed interest rates
- Lower down payments
- Flexible repayment options
- The ability to include furniture, fixtures and fees
- An option for refinancing commercial mortgage debt
- Payment stability
- Protection from balloon payments
- The ability to include leasehold improvements
- Preservation of working capital

### MYTH #2: 504 loans can only be paid off twice per year.

**FACT:** A 504 loan can be paid off any month throughout the calendar year, but the calculation is based on the semi-annual debenture dates. Payoff amount includes the remaining principal, prepayment premium (if still applicable) and interest/servicing fees due through the next upcoming debenture date.

- The payoff window for any given month opens on the 2nd Thursday and closes on the 3rd Thursday
- Semi-annual debenture dates are determined by the funding date (i.e. if a loan funds in January, the debenture dates are January 1st and July 1st, February funder – February 1st and August 1st, etc.)
- In order to meet the debenture date the 504 loan must be paid off the month prior (i.e. for a February 1st debenture date the loan must be paid off in the January cycle)
  - Please note that if a debenture date is missed, the borrower will incur six months of interest and servicing fees

### MYTH #3: The pre-payment penalties are too high with a 504 loan.

**FACT:** The prepayment penalty declines in an accelerated fashion over the first 10 years and is eliminated in year 11. And because there are lower fees associated with 504 loans, the 504 is oftentimes the more affordable choice.

Property Equity	\$883,000
Refinanced Loan Amount	\$5,000,000
<b>Total Project Cost</b>	<b>\$5,883,000</b>

<b>504 STRUCTURE</b>		
Bank	50%	\$2,942,000
SBA 504	35%	\$2,058,000
Borrower Equity	15%	\$883,000
<b>Total Refinance</b>		<b>\$5,883,000</b>

<b>504 FEES</b>	<b>\$71,979</b>
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<b>7a STRUCTURE</b>			
Bank	84.99%	\$5,000,000	
SBA 504	0%	\$0	
Borrower Equity	15.01%	\$883,000	
<b>Total Refinance</b>		<b>\$5,883,000</b>	

75% of Loan = \$3,750,000		
	<i>Points</i>	<i>Fees</i>
1st Tier - \$1,000,000	3.50	\$35,000
2nd Tier - \$2,750,000	3.75	\$103,125
<b>7a FEES</b>		<b>\$138,125</b>

#### ESTIMATED PENALTY AMOUNTS

<i>Penalty Schedule</i>			<i>Pmt=monthly payment #</i>		
YR	PENALTY	PMT #	AMOUNT	PMT #	AMOUNT
1	1.1500%	6	\$11,334.53	66	\$4,642.41
2	1.0350%	12	\$11,134.90	72	\$4,536.60
3	0.9200%	18	\$9,840.69	78	\$3,544.13
4	0.8050%	24	\$9,658.91	84	\$3,458.49
5	0.6900%	30	\$8,423.17	90	\$2,529.26
6	0.5750%	36	\$8,259.69	96	\$2,464.27
7	0.4600%	42	\$7,083.35	102	\$1,599.27
8	0.3450%	48	\$6,938.63	108	\$1,555.44
9	0.2300%	54	\$5,822.63	114	\$755.67
10	0.1150%	60	\$5,697.13	120	\$733.50

### A DIFFERENCE OF \$66,146

Note 1: 7a fees with first mortgage fee charged would require the client to keep the loan past 1 year for the 504 fee savings to offset the cost of the prepayment penalty based upon today's note rate of 2.15%

**When you add the 504 fees to the pre-payment penalty amounts listed above, it's still at least \$54k less than the 7a fees alone.**