

# MOUNTAIN WEST SMALL BUSINESS FINANCE

## MASTERS IN 504 LENDING

- The Basics of 504



# MOUNTAIN WEST SMALL BUSINESS FINANCE

## MASTERS IN 504 LENDING

- Welcome to the second session of the Masters in 504 Lending Series, presented by Mountain West Small Business Finance
- We appreciate your taking the time to visit with us today, and throughout this series
- Today's Presenter's:
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# MOUNTAIN WEST SMALL BUSINESS FINANCE

## MASTERS IN 504 LENDING

### Content:

- Who is MWSBF
  - Why SBA 504
    - Eligibility
      - Standard 504
        - Expansion Refi
          - Conventional refi
            - When to use a 504 loan
              - General Info

# MOUNTAIN WEST SMALL BUSINESS FINANCE

## MASTERS IN 504 LENDING

### SBA 504 Loan Program:

- Players:
  - Bank, Credit Union or Other Third-Party Lender (TPL)
  - CDC/SBA
  - Borrowers

# MOUNTAIN WEST SMALL BUSINESS FINANCE

## MASTERS IN 504 LENDING

### MWSBF – A Certified Development Company

- Licensed or certified by SBA to administer the 504 program
- Not employees of SBA
- Governed by rules/regs of program
- Non-profit, non-stock 501 (C) (4) company
- Serves Specific Geographic Areas -All of UT & WY plus, surrounding states

# MOUNTAIN WEST SMALL BUSINESS FINANCE

## MASTERS IN 504 LENDING

### Why 504 for 3<sup>rd</sup> Party Lenders

- Helps maintain liquidity by only doing a loan for 50% of total project cost
- Better able to serve middle market clients
- Risk Reduction – Low LTV
- Helps meet CRA obligations
- Can sell loans on secondary markets- limited
- Allows you to provide your client with an excellent loan

# MOUNTAIN WEST SMALL BUSINESS FINANCE MASTERS IN 504 LENDING

## Why 504 for MWSBF/SBA

- Economic Development Program
- Create jobs
- Enhance local economy
- Keeps and brings business to the area

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## MASTERS IN 504 LENDING

### Why 504 for your clients

- They get a 10, 20, or 25 year fully amortizing loan on 504 portion
- Fixed, below market rate of interest on 504 portion
- Lower down payment – as low as 10% (helps retain needed working capital for borrower)



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## MASTERS IN 504 LENDING

### Source of borrowers down payment

- Cash –Personal, business or both:
  - Cash listed on PFS or Balance sheet
  - Can “borrower” the down payment, but borrower should put down at least half of the required amount
  - Can use HELOC, family, friends and 1031 exchanges
  - If borrowed, must look at impact on global cash flow
- Land equity:
  - If owned longer than 2 years, can use appraised value minus outstanding balance
  - If owned less than 2 years, cost minus outstanding balance

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## MASTERS IN 504 LENDING

### How does a 504-loan work

- Third Party Lender – Usually 50% of eligible project costs & they get a 1<sup>st</sup> lien position
- CDC lends up to 40% of eligible project costs & takes a 2<sup>nd</sup> lien position
- Borrower(s) provide minimum of 10% down payment
- [https://www.youtube.com/watch?v=Quc1yoT\\_FNk](https://www.youtube.com/watch?v=Quc1yoT_FNk)

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## MASTERS IN 504 LENDING

### Basic eligibility for 504 loans

- Must be an Operating Business (Not Passive)
- Must be “for profit”
- Must be located in the USA
- Must be “small” under SBA’s definition (including affiliates)
  - \$15MM tangible net worth
  - \$5MM in average net income after federal income taxes
- Demonstrates a need for desired credit (Credit elsewhere)

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## MASTERS IN 504 LENDING

### Basic eligibility for 504 loans-Occupancy

- On “Existing” facilities, applicant must occupy at least 51% of space and 100% of space remodeled or renovated
- On “New Construction” applicant must occupy 60% out of the gate
  - Begin to occupy remaining 20% within 3 years and all within 10 years
  - Can lease out 20% forever
- All common areas accrues to the benefit of borrowers. (Some outside space can count towards their occupancy)
- Residential “properly zoned” can be part of the 504 project. However, business must occupy at least 51% of existing properties

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## MASTERS IN 504 LENDING

### What is SBA 504

- Fixed asset financing:
  - Bricks and Mortar (can include FF&E)
  - Equipment with longer life expectancy
- Eligible Project Cost:
  - Purchase of land and/or building
  - Construct building/remodel
  - FF&E
  - Soft Cost (appraisal, Environmental, points fees and interest).
- Example: Project Cost
  - Purchase existing building of \$1,000,000
  - Renovation cost of \$500,000
  - Fees (Professional fees, contingency, and interim interest) of \$80,000
  - Total Project cost \$1,580,000
- Project financing
  - Bank at 50% or \$790,000
  - CDC/SBA at 40% or \$632,000
  - Borrowers down payment at 10% or \$158,000



504 Loan Program PROJECT COST  
Sources and Uses of Funds

Project Name: TBD

Lender: TBD

Date: \_\_\_\_\_

PROJECT COSTS (USES OF FUNDS)

Purchase Land	0
Purchase Land and Building	1,000,000
Purchase Improvements	500,000
Construct a Building	0
Add an Addition to a Building	0
Renovate a Property	0
Make Leasehold Improvements	0
Purchase/Install Equipment	0
Purchase/Install Fixtures	0
Pay Outstanding Debt	0
Professional Fees	27,000
Other Expenses (construction contingency, interim interest)	53,000
<b>TOTAL PROJECT COST</b>	<b>1,580,000</b>

PROJECT FINANCING (SOURCES OF FUNDS)

BANK	50.00%	1st T.D.	790,000.00	COPED*
CDC/SBA	40.00%	2nd T.D.	632,000.00	
Equity	10.00%		158,000.00	
<b>TOTAL</b>			<b>1,580,000</b>	

<u>DEBENTURE AND FEES</u>	<u>FINANCED</u>	<u>PAID AT CLOSING</u>
Net Proceeds	632,000.00	
CDC Fee	9,480.00	
Guaranty Fee 0.50%	3,160.00	
Attorney's Fees	2,500.00	
Funding Fee (.25%)	1,580.00	
Closing Costs	3,849.20	
Underwriting Fee (.4%/20yr, .375%/10yr)	2,624.00	
Total	655,193.20	0.00
<b>GROSS DEBENTURE (rounded up):</b>	<b>656,000.00</b>	<b>6,349.20</b>
<b>RESIDUAL PAID TO BORROWER:</b>	<b>806.80</b>	

	Amount	Interest Rate	Term (Years)	Monthly Payment (20Yr)
BANK	790,000	5.00	20	5,214
CDC/SBA	656,000	3.25	20	3,721
EQUITY	158,000			
<b>TOTAL</b>	<b>1,604,000</b>			
		<b>Total New Debt Service/Month:</b>		8,934
		<b>Total New Debt Service/Year:</b>		107,213

  

	Amount	Interest Rate	Term (Years)	Monthly Payment (20Yr)
BANK	790,000	5.00	25	4,618
CDC/SBA	656,000	3.50	25	3,284
EQUITY	158,000			
<b>TOTAL</b>	<b>1,604,000</b>			
		<b>Total New Debt Service/Month:</b>		7,902
		<b>Total New Debt Service/Year:</b>		94,828

Interim Loan required: 1,422,000

# MOUNTAIN WEST SMALL BUSINESS FINANCE

## MASTERS IN 504 LENDING

### Expansion refinance

- Must be in connection with an expansion
  - Can be multiple locations as long as it is the same NAICS designation
  - Can refinance up to 100% of expansion amount
  - Borrowers can use equity in existing RE as all or part of down payment.
- Example:
    - Expansion cost of \$1,000,000
    - Existing debt of \$750,000
    - Land equity of \$210,000
    - Fees of \$140,000
  - Project Financing:
    - Bank at 50% or \$1,050,000
    - CDC/SBA at 40% or \$840,000
    - Land equity/Down Payment at 10% or \$210,000



504 Loan Program PROJECT COST  
Sources and Uses of Funds

Project Name: Expansion Refi

Lender: TBD

Date: \_\_\_\_\_

PROJECT COSTS (USES OF FUNDS)

Land Equity	210,000
Purchase Land and Building	0
Purchase Improvements	1,000,000
Construct a Building	0
Add an Addition to a Building	0
Renovate a Property	0
Make Leasehold Improvements	0
Purchase/Install Equipment	0
Purchase/Install Fixtures	0
Pay Outstanding Debt	750,000
Professional Fees	31,500
Other Expenses (construction contingency, interim interest)	108,500
<b>TOTAL PROJECT COST</b>	<b>2,100,000</b>

PROJECT FINANCING (SOURCES OF FUNDS)

BANK	50.00%	1st T.D.	1,050,000.00	
CDC/SBA	40.00%	2nd T.D.	840,000.00	
Equity	10.00%		210,000.00	
		<b>TOTAL</b>	<b>2,100,000</b>	

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<u>DEBENTURE AND FEES</u>	<u>FINANCED</u>	<u>PAID AT CLOSING</u>
Net Proceeds	840,000.00	
CDC Fee	12,600.00	
Guaranty Fee 0.50%	4,200.00	
Attorney's Fees	2,500.00	
Funding Fee (.25%)	2,100.00	
Closing Costs	4,598.00	
Underwriting Fee (.4%/20yr, .375%/10yr)	3,480.00	
<b>Total</b>	<b>869,478.00</b>	<b>0.00</b>
<b>GROSS DEBENTURE (rounded up):</b>	<b>870,000.00</b>	<b>7,098.00</b>
<b>RESIDUAL PAID TO BORROWER:</b>	<b>522.00</b>	

	<u>Amount</u>	<u>Interest Rate</u>	<u>Term (Years)</u>	<u>Monthly Payment (20yr)</u>
BANK	1,050,000	5.00	20	6,930
CDC/SBA	870,000	3.25	20	4,935
EQUITY	210,000			
<b>TOTAL</b>	<b>2,130,000</b>			
		<b>Total New Debt Service/Month:</b>		<b>11,864</b>
		<b>Total New Debt Service/Year:</b>		<b>142,370</b>
	<u>Amount</u>	<u>Interest Rate</u>	<u>Term (Years)</u>	<u>Monthly Payment (20yr)</u>
BANK	1,050,000	5.00	25	6,138
CDC/SBA	870,000	3.50	25	4,355
EQUITY	210,000			
<b>TOTAL</b>	<b>2,130,000</b>			
		<b>Total New Debt Service/Month:</b>		<b>10,494</b>
		<b>Total New Debt Service/Year:</b>		<b>125,923</b>

Interim Loan required: 1,890,000



# MOUNTAIN WEST SMALL BUSINESS FINANCE

## MASTERS IN 504 LENDING

### Conventional Refinance

- Can refinance existing eligible fixed assets – 85% of refinance must be 504 eligible.
- Can refinance government guaranteed loans
- Can use equity in existing land building and FF&E
- Cash out up to 20% of appraised value
- No cash out – 90% LTV
- Cash out – 85% LTV
- Example: Appraised value \$4,850,000
  - Eligible business expenses of \$955,000
  - Existing debt of \$2,335,000
  - Land equity of \$1,496,660
  - Fees of \$63,400
- Project Financing:
  - Bank at 34.57% or \$1,676,700
  - CDC/SBA at 34.57% or \$1,676,700
  - Land equity/Down Payment at 30.86% or \$1,496,600



504 Loan Program PROJECT COST  
Sources and Uses of Funds

Project Name: Conventional Refi

Lender: TBD

Date: \_\_\_\_\_

PROJECT COSTS (USES OF FUNDS)

Land Equity	1,496,600
Purchase Land and Building	0
Purchase Improvements	0
Construct a Building	0
Add an Addition to a Building	0
Renovate a Property	0
Make Leasehold Improvements	0
Purchase/Install Equipment	0
Eligible Business Expenses	955,000
Pay Outstanding Debt	2,335,000
Professional Fees	40,000
Other Expenses (construction contingency, interim interest)	23,400
<b>TOTAL PROJECT COST</b>	<b>4,850,000</b>

PROJECT FINANCING (SOURCES OF FUNDS)

BANK	34.57%	1st T.D.	1,676,700.00	
CDC/SBA	34.57%	2nd T.D.	1,676,700.00	
Equity	30.86%		1,496,600.00	
<b>TOTAL</b>			<b>4,850,000</b>	

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DEBENTURE AND FEES	FINANCED	PAID AT CLOSING
Net Proceeds	1,676,700.00	
CDC Fee	25,150.50	
Guaranty Fee 0.50%	8,383.50	
Attorney's Fees	2,500.00	
Funding Fee (.25%)	4,191.75	
Closing Costs	7,611.20	
Underwriting Fee (.4%/20yr, .375%/10yr)	6,928.00	
<b>Total</b>	<b>1,731,464.95</b>	<b>0.00</b>
<b>GROSS DEBENTURE (rounded up):</b>	<b>1,732,000.00</b>	<b>10,111.20</b>
<b>RESIDUAL PAID TO BORROWER:</b>	<b>535.05</b>	

	Amount	Interest Rate	Term (Years)	Monthly Payment (20Yr)
BANK	1,676,700	5.00	20	11,065
CDC/SBA	1,732,000	3.25	20	9,824
EQUITY	1,496,600			
<b>TOTAL</b>	<b>4,905,300</b>			
		<b>Total New Debt Service/Month:</b>		20,889
		<b>Total New Debt Service/Year:</b>		250,672
	Amount	Interest Rate	Term (Years)	Monthly Payment (20Yr)
BANK	1,676,700	5.00	25	9,802
CDC/SBA	1,732,000	3.50	25	8,671
EQUITY	1,496,600			
<b>TOTAL</b>	<b>4,905,300</b>			
		<b>Total New Debt Service/Month:</b>		18,473
		<b>Total New Debt Service/Year:</b>		221,671

Interim Loan required: 3,333,400

# MOUNTAIN WEST SMALL BUSINESS FINANCE

## MASTERS IN 504 LENDING

### Think 504 For Your Client When...

- They want to purchase an existing building
- They want to add an additional location
- They have a lease with an option to purchase
- They want to buy land and construct a building
- They already own the land want to construct a building
- They own their building and want to renovate or do an expansion.
- They want to refinance a building they already own
- They want to do a cash out refinance

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## MASTERS IN 504 LENDING

### General information

- Applicant(s) can form a Real Estate Holding entity (called an Eligible Passive Company or EPC) – They become the borrower(s) and/or obligor(s)
- Operating Company or Companies (OC) typically become guarantors
- Can have multiple operating companies, but only one EPC (can have guarantor affiliate companies)
- Poor personal credit and BK's do not automatically disqualify an applicant. Need a good explanation
- If they have unremedied defaults on any federal loans, they are disqualified from getting a 504

# MOUNTAIN WEST SMALL BUSINESS FINANCE

## MASTERS IN 504 LENDING

### What 504 can't do

- Working capital (some exceptions)
- A/R financing
- Small amounts of FF&E only
- Inventory Acquisition

# MOUNTAIN WEST SMALL BUSINESS FINANCE MASTERS IN 504 LENDING

## **Please join us for our next Masters in 504 Lending Session**

- April 24<sup>th</sup> at 11:00am
- Topic: Best practices for 504 loan applications
- Please invite all of those in your offices who have any present or potential future, role in 504 lending to attend
- This is a very important topic that will help us all process loans faster



**THANK YOU**

**Mountain West Small Business Finance**  
Masters in 504 Lending