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# MASTERS OF 504 LENDING SERIES

SBA 504 LOAN STRUCTURING & NEW ALP EXPRESS



## TODAY'S PRESENTER

### KIMBERLY HOLLEY

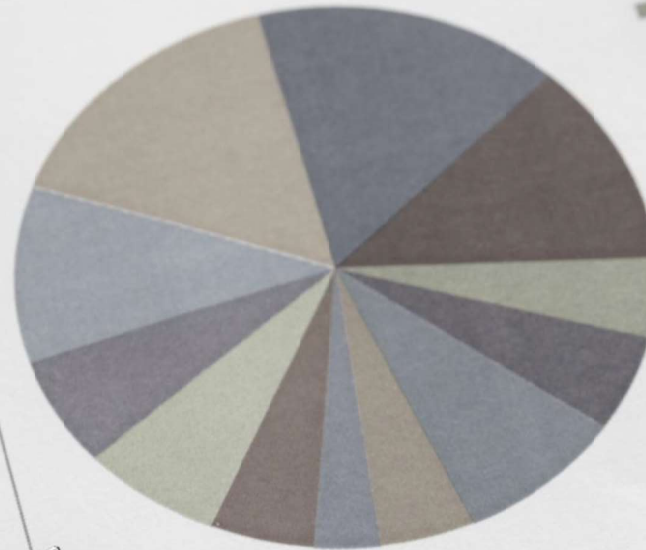
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*Kimberly has been with Mountain West Small Business Finance since 2007 and brings over 15 years of commercial lending experience in both SBA 504 and 7A.*



# TODAY'S DISCUSSION

- Initial Borrower Questions for Determining Structure
- Standard 504 Loan Structure
- Elements that Change the Standard Structure
- Determining Project Costs & Building your Sources and Uses
- How to Structure an SBA 504 Loan – Real Life Examples
- New ALP Express Program – Which Loans Fit



125,058	154,568	95,054	124,500
55,487	56,845	97,511	125,000
	110,000	99,011	154,000
		99,216	95,000
		101,090	154,200
			110,000
			99,000



## INITIAL MEETING WITH THE BORROWER

What questions are important to ask early on to determine the appropriate loan structure?

- Type of Building
  - Is the building special purpose or general purpose?
- Time in Business
  - How long has the business been operating?
  - How long have the current owners been involved?
- Type of Project
  - Purchase, Construction, Refinance, Etc.
- Loan Project Cost Breakdown
  - What costs will be included in the project?

***\*Your MWSBF Loan Officer can be your 504 “Guru” at no extra charge! Bringing the whole team to your client meeting will allow us to talk the SBA 504 side while you deliver on the lender side – making you look good to your client. We will hold your hand through the process and can even work with you to structure the deal.***

*This makes my job today redundant and unnecessary...just kidding...NEXT SLIDE!*

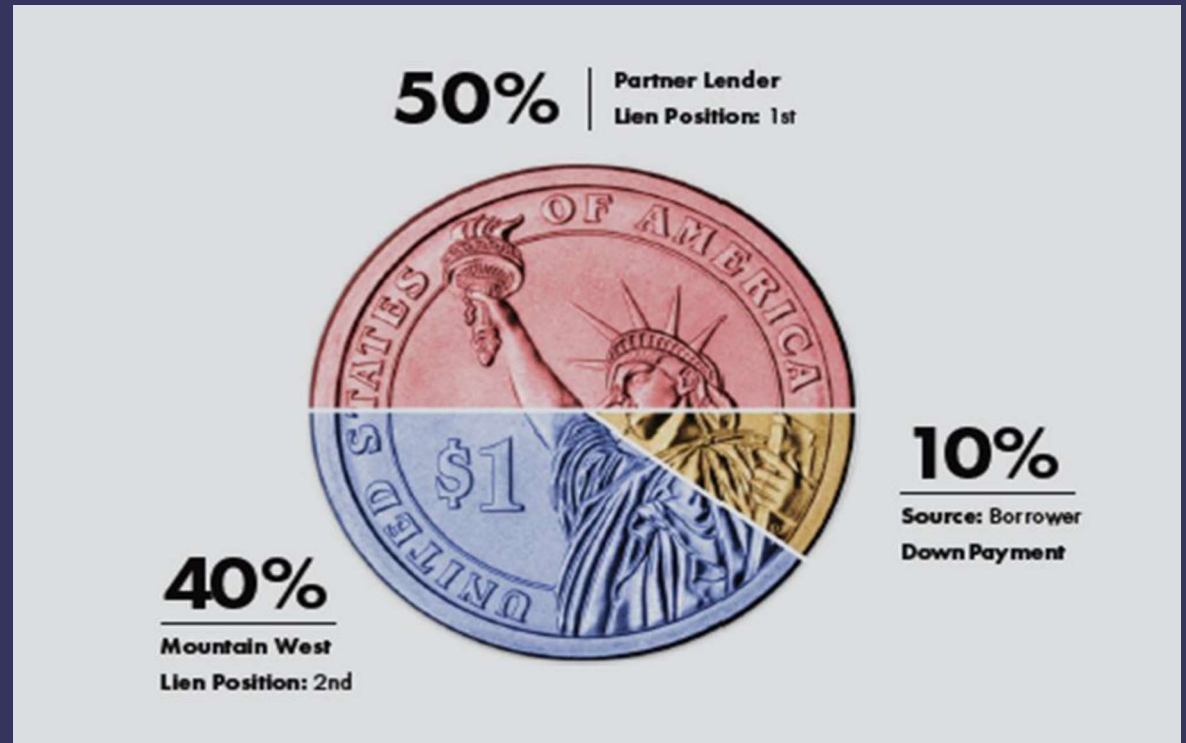
# STANDARD SBA 504 LOAN STRUCTURE

## 50/40/10 Split

Typical SBA 504 loan structure:

Participating Lender	50% 1 <sup>st</sup> Lien
MWSBF/SBA	40% 2 <sup>nd</sup> Lien
Borrower's injection	10%

*However, like most things in life,  
there are always exceptions...*



*\*SBA 504 net portion cannot exceed 40% of the project costs or the amount of the Participating Lender portion (lesser of the two) in any circumstance.*

## TYPE OF BUILDING: SPECIAL USE OR GENERAL PURPOSE?

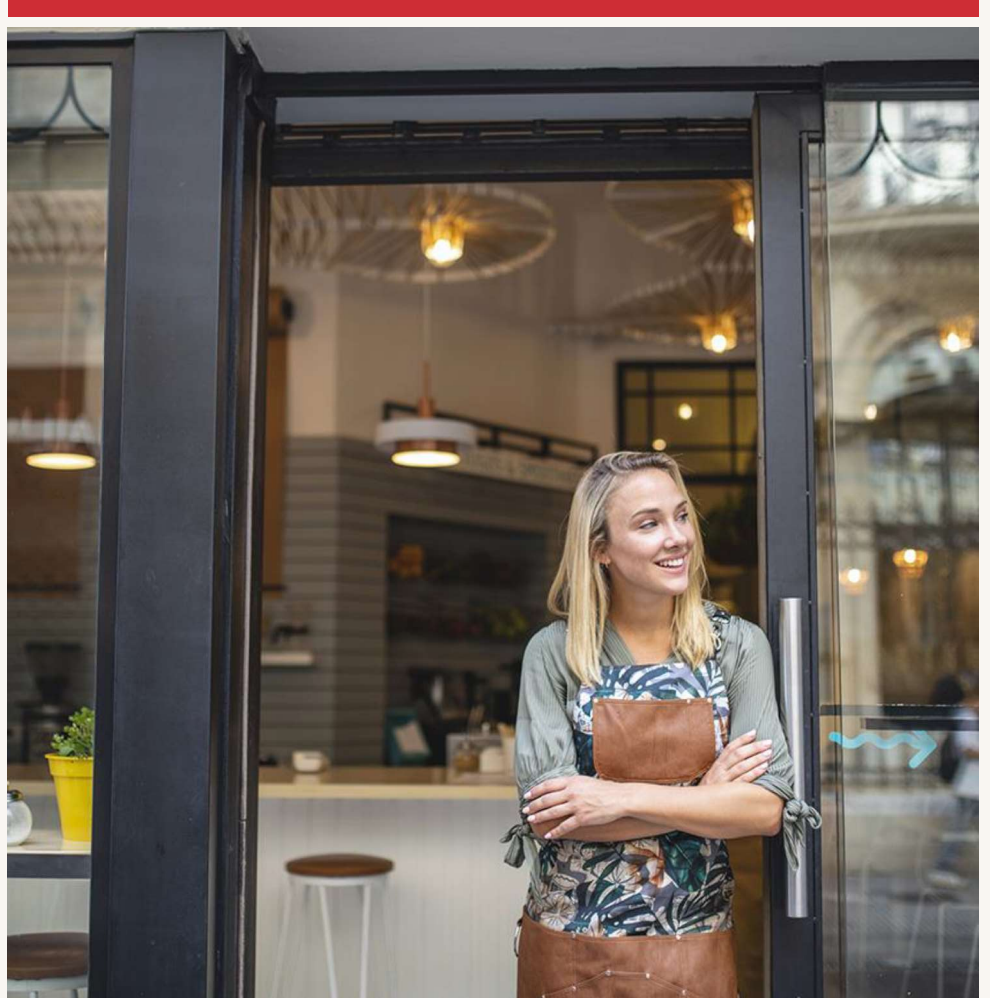
**General Purpose** - Eligible for 10% down payment

**Limited or Special Purpose Property** - Requires an additional 5% down payment (15% total borrower injection), and the Lender must be at 50% of the project. Additional down will reduce the SBA portion.

SOP Definition of Limited or Special Purpose Property: (504) A limited-market property with a unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built.

Special Use Examples: Hotel, Theater, Car Wash, Auto Service Centers (with inground pits or lifts)... the list goes on – See SOP 50 10 6 page 478-479 lists several examples of special use properties

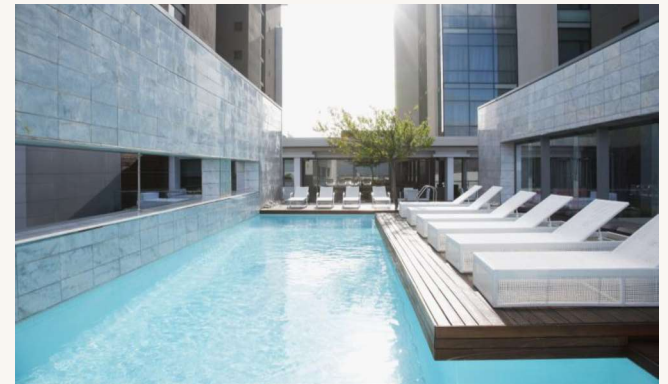
*\*\* Self Storage Facilities are not included as Limited or Special Use \*\**



## MULTIPLE SPECIAL PURPOSE LOANS

A borrower is allowed one limited or special purpose loan with a 15% down payment. After the first loan, subsequent loans will require a 20% down payment. Any additional down will reduce the SBA portion.

*For any business (including affiliates) that has an outstanding debenture for a Project involving a Limited or Special Purpose Property, for each subsequent Project involving a Limited or Special Purpose Property, the Borrower must contribute at least 20%, unless the project is a debt refinance with expansion in accordance with 13 CFR 120.882(e) of the original 504 project at the same location. (SOP 50 10 6 page 478)*



## TIME IN BUSINESS: HOW LONG HAS THE BUSINESS OPERATED?

### Existing Business with > 2 Years Operations – Eligible for 10% Down

#### New Businesses or “Start-up” per SBA’s definition:

- SBA classifies a new business or start-up as a business with less than 2 years of financial operations at time of application
- Change in ownership can be considered a new business (business acquisitions)
  - *Exceptions:* Ownership changing to a close family member or the creation of a new entity with similar ownership structure with existing operations as a guarantor affiliate (i.e. new entity created for each of multiple locations)

**Requires an additional 5% down payment (15% total borrower injection), and the Lender must be at 50% of the project. Any additional down will reduce the SBA portion**

**New Business Definition:** (7(a) and 504) A business that has been in operations for 2 years or less at the time the loan is approved. A business that has been in operation for more than 2 years at the time the loan is approved may be considered a New Business if it is a change of ownership that will result in new, unproven ownership/management and increased debt unrelated to business operations. If there is a change of ownership, the CDC must review the management and level of debt and make a determination whether an additional Borrower’s contribution of 5% is necessary. Operations are deemed to begin when the business begins generating revenue from its intended operations. (SOP 50 10 6 page 532)





## DOUBLE WHAMMY

If the project consists of **BOTH** a Limited or Special Use Property & a New Business

Requires an additional 10% down payment (20% Total Borrower Injection), *and* the Lender must be at 50% of the project. Any additional down will reduce the SBA portion



# DETERMINING PROJECT COSTS

## Eligible Project Costs:

- Purchase Existing Building
- Land Acquisition and New Building Construction
- Renovate and Expand Existing Building
- Purchase Equipment
- Refinance Existing Debt and Expand Building
- Cash Out (EBE) Refinance of Existing Building
- Partner Buyout of Fixed Assets
- Professional Fees such as Appraisal, Environmental, Engineering, Architect, Impact Fees, Etc.
- Soft Costs such as Interim Origination, Closing, Interest Reserve, Contingency, Etc. are allowed

**Ineligible Costs:** Working Capital, Inventory, TIs for Tenant Space, “Goodwill” and Other Intangible Assets



- Personal Cash from Owner
- Cash Borrowed from Personal Assets (HELOC)
- Cash from Business Operations
- Seller Carryback (MWSBF requires that 50% of the injection come from Borrower, 50% can be Seller Carry back loan). Can be either secured or unsecured:
  - If secured by project property 3<sup>rd</sup> lien position with a term equal to or greater than the SBA loan
  - Unsecured or secured by non-project collateral, repayment terms are flexible
- Equity in Project Real Estate Owned
  - Owned greater than 2 years = “As Is” appraised value less debt against real estate
  - Owned less than 2 years = Purchase price less debt against real estate
- Gift (gift letter, proof of gift funds, and transfer confirmation)

## ELIGIBLE BORROWER INJECTION SOURCES



## SBA 504 LOAN TERMS

### **20 & 25-Year Debenture (Real Estate)**

- Third Party Lender loan must have a minimum maturity of 10 years.
- Combined real estate & equipment projects (mixed-use) are possible.
- Current Effective Rates:  
20 yr – 4.88% 20 yr REFI – 4.90% 25 yr – 4.97% 25 yr REFI – 4.99%
- 10 year Declining Prepayment Penalty based on Note Rate

### **10-Year Debenture (Equipment Only)**

- Third Party Lender loan must have a minimum maturity of 7 years.
- Equipment term may be extended to 20 years based on useful life.
- Current Effective Rates 10 yr - 4.96%
- 5 year Declining Prepayment Penalty based on Note Rate

*\*Rates are as of August 2022 Funding*

# LOAN LIMITS

**\$5 million limit in all eligible cases** – aggregate total of all outstanding SBA loan balances

**\$5.5 million per project for eligible small manufacturers**

**\$5.5 million per project for projects that meet an Energy Public Policy Goal** (up to 3 projects for a total of \$16.5MM) – *the \$5.5MM limit for each Project is not reduced by any other outstanding SBA loan guaranties that the Borrower and its affiliates have received through other SBA loan programs. Loans made for Eligible Energy Public Policy Projects do not reduce the \$5MM limit for each small business concern for other 504 Projects. SOP 50 10 6 page 475*

Generate at least 15% of energy consumption through select renewable sources (Solar Panels are one of the easiest way to achieve this)

OR

Reduce at least 10% of onsite energy consumption (project must be replacing an existing facility or be a retrofit on a Borrower's existing facility. Cannot be used for new businesses).

To meet either of the Energy Public Policy an Energy Audit Report must be completed

*\*PPP and EIDL do not count towards the outstanding amounts*

## CREATING YOUR PROJECT SOURCES AND USES

The easiest way to structure your loan  
and create your sources and uses...

CALL YOUR MWSBF  
LOAN OFFICER  
AND THEY WILL  
DO IT FOR YOU!

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# SOURCES & USES



## 504 Loan Program PROJECT COST Income and Uses of Funds

Project Name: ABC Company, LLC

Lender: Any Lender USA Date: Any Date

**PROJECT COSTS (USES OF FUNDS)**

Purchase Land	\$	50,000.00
Land Equity		
Purchase Land and Building		
Land and Building Equity		
Purchase Improvements	\$	1,200,000.00
Construct a Building		
Add an Addition to a Building		
Renovate a Property		
Make Leasehold Improvements	\$	50,000.00
Purchase/Install Equipment		
Purchase/Install Fixtures		
Pay Outstanding Debt		
Highly Business Expenses		
Professional Fees	\$	3,000.00
Interest/Agency/Construction Contingency	\$	120,000.00
Other Expenses (7% Interest Fees, etc.)	\$	81,000.00
<b>TOTAL PROJECT COST</b>	<b>\$</b>	<b>1,753,000.00</b>

**PROJECT FINANCING (SOURCES OF FUNDS)**

BANK (7%)	50%	1st T.D.	\$	876,500.00	COMP
CD/CSA	40%	2nd T.D.	\$	700,000.00	
Equity	30%		\$	526,500.00	
Other	0%		\$	-	
<b>TOTAL</b>			<b>\$</b>	<b>1,753,000.00</b>	

**REVENUE AND FEES**

Net Proceeds	\$	702,000.00	
CD/CSA Fee	1.50%	\$	10,500.00
Agency Fee	0.50%	\$	3,500.00
Attorney's Fees	\$	3,000.00	
Funding Fee (2%)	\$	14,000.00	
Closing Costs	\$	4,000.00	
Underwriting Fee (1.4%/Year, .375%/Year)	\$	3,000.00	
<b>Total</b>	<b>\$</b>	<b>839,500.00</b>	
<b>BRAND DEBITURE (assumed 40%)</b>	<b>\$</b>	<b>335,800.00</b>	
<b>RESIDUAL PAID TO BORROWER</b>	<b>\$</b>	<b>503,700.00</b>	

**FINANCING PAID BY CLOSING**

	\$	120,000.00
	\$	81,000.00
	\$	3,000.00
	\$	1,200,000.00
	\$	4,000.00
	\$	3,000.00
	\$	10,500.00
	\$	702,000.00
	\$	839,500.00

**MONTHLY PAYMENTS**

	Amount	Interest Rate	Term (Years)	Monthly Payment (\$/M)
BANK	\$ 876,500.00	7.75%	20	\$8,811.87
CD/CSA	\$ 700,000.00	4.50%	20	\$3,287.84
OTHER	\$ -	-	-	\$ -
EQUITY	\$ 526,500.00	-	-	\$ -
<b>TOTAL</b>	<b>\$ 1,753,000.00</b>			
<b>Total New Debt Service/Month:</b>				<b>\$12,100.00</b>
<b>Total New Debt Service/Year:</b>				<b>\$145,200.00</b>

**MONTHLY PAYMENTS (Continued)**

	Amount	Interest Rate	Term (Years)	Monthly Payment (\$/M)
BANK	\$ 876,500.00	7.75%	20	\$8,811.87
CD/CSA	\$ 700,000.00	4.50%	20	\$3,287.84
OTHER	\$ -	-	-	\$ -
EQUITY	\$ 526,500.00	-	-	\$ -
<b>TOTAL</b>	<b>\$ 1,753,000.00</b>			
<b>Total New Debt Service/Month:</b>				<b>\$12,100.00</b>
<b>Total New Debt Service/Year:</b>				<b>\$145,200.00</b>

Interest Loan Required: \$ 1,753,000.00



## STRUCTURING EXAMPLES

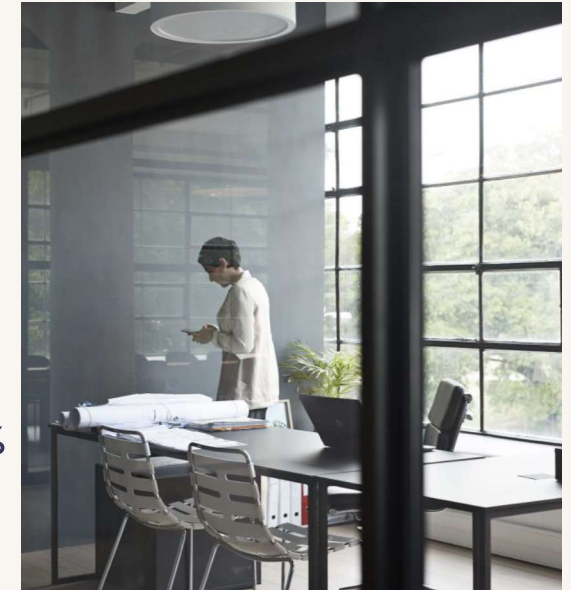


## Project Costs

Land/Bldg	\$1,500,000
Remodel	\$ 350,000
Professional Fees	\$ 5,000
Soft Costs	\$ 25,000
<b>Total</b>	<b>\$1,875,000</b>

## Project Breakdown

Participating Lender	\$ 937,000	50%
MWSBF/SBA	\$ 750,000	40%
Borrower Injection	\$ 187,500	10%
<b>Total</b>	<b>\$1,875,000</b>	<b>100%</b>



**EXISTING BUSINESS & GENERAL PURPOSE BUILDING**

*\*Additional Borrower Injection*

**Project Costs**

Land/Bldg	\$1,500,000
Remodel	\$ 350,000
Professional Fees	\$ 5,000
Soft Costs	\$ 25,000
<b>Total</b>	<b>\$1,875,000</b>

**Project Breakdown**

Participating Lender	\$ 750,000	40%
MWSBF/SBA	\$ 750,000	40%
Borrower Injection	\$ 375,000	20%
<b>Total</b>	<b>\$1,875,000</b>	<b>100%</b>



**EXISTING BUSINESS & GENERAL PURPOSE BUILDING**



### Project Costs

Land/Bldg	\$1,700,000
Equipment Purchase	\$ 500,000
Professional Fees	\$ 20,000
Soft Costs	\$ 30,000
<b>Total</b>	<b>\$2,250,000</b>

### Project Breakdown

Participating Lender	\$1,125,000	50%
MWSBF/SBA	\$ 787,500	35%
Borrower Injection	\$ 337,500	15%
<b>Total</b>	<b>\$2,250,000</b>	<b>100%</b>

**NEW BUSINESS OR LIMITED/SPECIAL USE PROPERTY**



*\*Additional Borrower Injection*

**Project Costs**

Land/Bldg	\$1,700,000
Equipment Purchase	\$ 500,000
Professional Fees	\$ 20,000
Soft Costs	\$ 30,000
<b>Total</b>	<b>\$2,250,000</b>

**Project Breakdown**

Participating Lender	\$1,125,000	50%
MWSBF/SBA	\$ 630,000	28%
Borrower Injection	\$ 495,000	22%
<b>Total</b>	<b>\$2,250,000</b>	<b>100%</b>

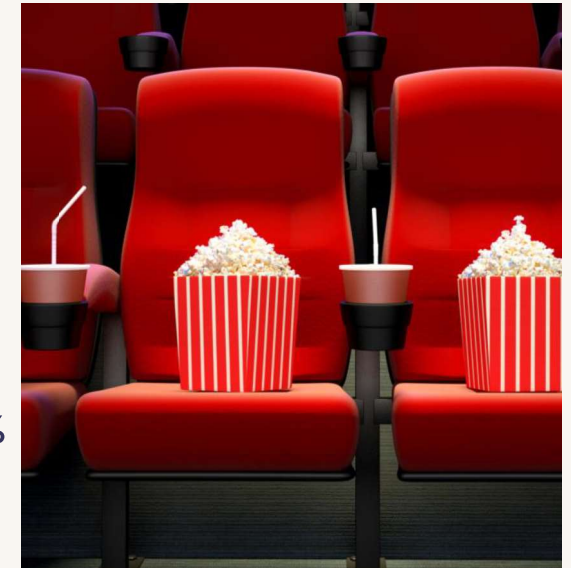
**NEW BUSINESS OR LIMITED/SPECIAL USE PROPERTY**

### Project Costs

Land/Bldg	\$3,500,000
Equipment Purchase	\$ 200,000
Professional Fees	\$ 20,000
Soft Costs	\$ 40,000
<b>Total</b>	<b>\$3,760,000</b>

### Project Breakdown

Participating Lender	\$1,880,000	50%
MWSBF/SBA	\$1,128,000	30%
Borrower Injection	\$ 752,000	20%
<b>Total</b>	<b>\$3,760,000</b>	<b>100%</b>



**NEW BUSINESS & LIMITED/SPECIAL USE PROPERTY**



**Project Costs = “As Is” Appraised Value \$3,000,000**

**Project Costs**

Land/Bldg Equity	\$ 300,000
Refinance	\$ 2,650,000
Professional Fees	\$ 5,000
Soft Costs	\$ 45,000
<b>Total</b>	<b>\$3,000,000</b>

**Project Breakdown**

Participating Lender	\$1,500,000	50%
MWSBF/SBA	\$1,200,000	40%
Borrower Injection	\$ 300,000	10%
<b>Total</b>	<b>\$3,000,000</b>	<b>100%</b>

**Borrower Injection = “As Is” Appraised Value Less Other Project Costs**

*\*Currently the requirement for additional down for special use and new business injection is waived on refinances*

**REFINANCE**



*\*Participating Lender and MWSBF/SBA have Equal Share*

**Project Costs = “As Is” Appraised Value \$750,000**

**Project Costs**

**Project Breakdown**

Land/Bldg Equity	\$ 230,000			
Refinance	\$ 500,000	Participating Lender	\$ 260,000	34.5%
Professional Fees	\$ 3,000	MWSBF/SBA	\$ 260,000	34.5%
Soft Costs	\$ 17,000	Borrower Injection	\$ 230,000	31.0%
<b>Total</b>	<b>\$ 750,000</b>	<b>Total</b>	<b>\$ 750,000</b>	<b>100%</b>

**Borrower Injection = “As Is” Appraised Value Less Other Project Costs**

**REFINANCE**

## Expansion Costs (less land/building equity) = > Refinance Amount

“As Is” Appraised Value = \$1,375,000

### Project Costs

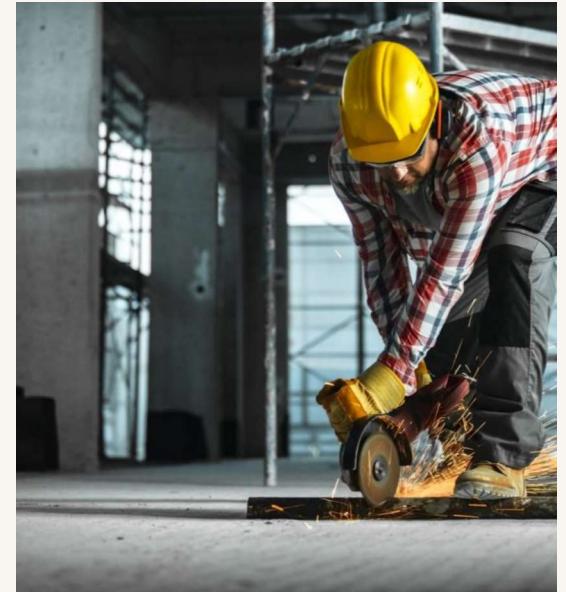
Land/Bldg Equity	\$ 250,000
Expansion	\$ 1,125,000
<u>Refinance</u>	<u>\$ 1,125,000</u>
<b>Total</b>	<b>\$2,500,000</b>

### Project Breakdown

Participating Lender	\$1,250,000	50%
MWSBF/SBA	\$1,000,000	40%
<u>Borrower Injection</u>	<u>\$ 250,000</u>	<u>10%</u>
<b>Total</b>	<b>\$2,500,000</b>	<b>100%</b>

**Borrower Injection = Plug Number (assuming “as is” appraised value less outstanding debt being refinanced is greater than or equal to required injection)**

*\*Expansion to a second location with the refinance of the existing location is eligible*



# REFINANCE WITH EXPANSION



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## REFINANCE WITH CASH OUT (EBE) GUIDELINES

- Maximum 85% LTV
- Cash Out portion of the project may NOT exceed 20% of the “as is” CRE value
- Cash Out – AKA “Eligible Business Expenses” might include, but not limited to, payroll, rent, utilities, inventory, other obligations of the business that will become due for payment within 18 months following the Date of Application – can be estimated from historical expenses
- Does not include capital expenditures or improvements



“As Is” Appraised Value = \$3,000,000

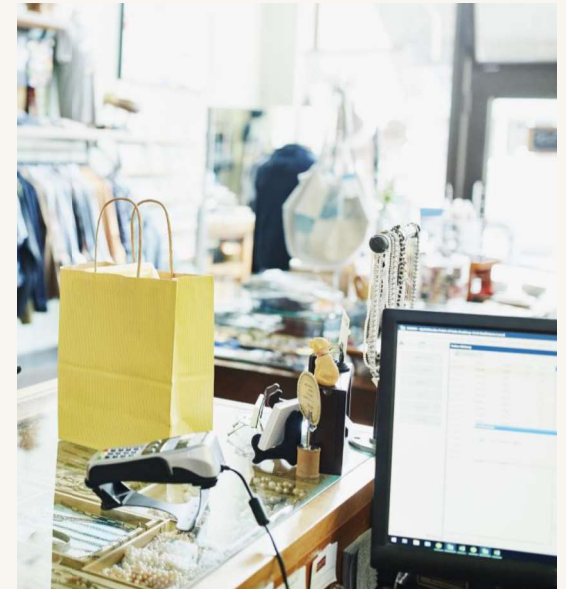
### Project Costs

Land/Bldg Equity	\$ 450,000
Cash Out	\$ 450,000
<u>Refinance</u>	<u>\$ 2,100,000</u>
<b>Total</b>	<b>\$3,000,000</b>

### Project Breakdown

Participating Lender	\$1,350,000	45%
MWSBF/SBA	\$1,200,000	40%
<u>Borrower Injection</u>	<u>\$ 450,000</u>	<u>15%</u>
<b>Total</b>	<b>\$3,000,000</b>	<b>100%</b>

MWSBF/SBA Portion can be < or = Participating Lender amount up to 40% of Project



# REFINANCE WITH CASH OUT



**Project Costs = “As Is” Appraised Value \$5,000,000**

**Buyout of 50% partner**

**Project Costs**

**Project Breakdown**

Land/Bldg Equity	\$ 1,250,000	Participating Lender	\$ 1,875,000	37.5%
Payoff Existing Debt	\$ 2,500,000	MWSBF/SBA	\$ 1,875,000	37.5%
Partner Buyout	\$ 1,250,000	Borrower Injection	\$ 1,250,000	25.0%
<b>Total</b>	<b>\$ 5,000,000</b>	<b>Total</b>	<b>\$ 5,000,000</b>	<b>100%</b>

**Partner Buyout amount and Equity are determined by the remaining “as is” value of the appraisal less outstanding debt.**

## **PARTNER BUYOUT GENERAL PURPOSE BUILDING & EXISTING BUSINESS**

WHEN STRUCTURING A 504 LOAN - WHO ARE YOU GOING TO CALL?



 **Mountain West**  
Small Business Finance

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# SBA 504 ALP EXPRESS

## New Program for Processing of SBA 504 Gross Debentures of \$500K or Less

### What loans qualify for ALP Express

- Generally, a Total Project between \$1.2MM and \$1.5MM Qualifies
- 5 - 8 Business Day Turn vs Standard 14 - 15 days
- CDC completes UW and SBA reviews only for eligibility
- Currently debt refinance has not been added as an option to their system to submit, but they are working on updating this
- Partner buyouts and non-arms length transactions are not eligible

Any loan with a \$500,000 debenture or less will be processed through the SBA express program.

- If the appraisal (required if value of the project property is over \$500K) is not submitted with original application, it is not given ALP status for review and will follow standard timing

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QUESTIONS?

