

SBA 504 Loan Program

BUSINESS DEVELOPMENT FUND OF TEXAS

Certified Development Corporation

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504 Loan Program

(Long-term, fixed-asset financing)

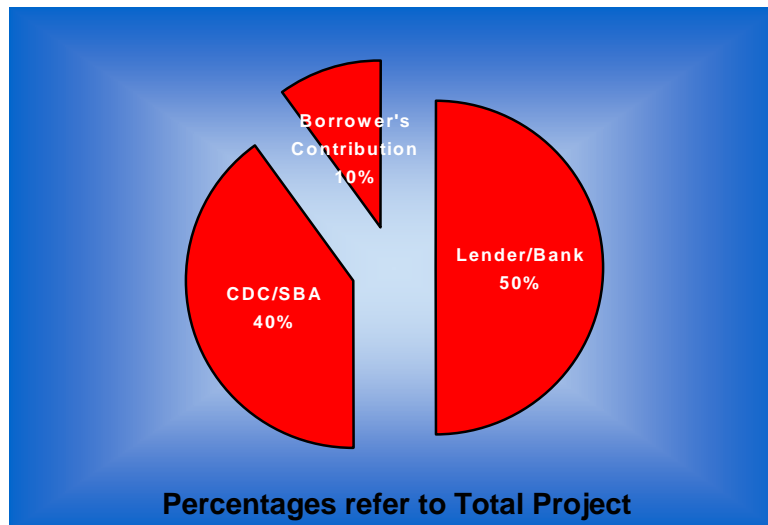
Purpose of the Program

- Create and preserve jobs
- Foster economic development
- Encourage bank lending activity
- Increase productivity of small businesses
- Stimulate local tax base

Up to 90% Financing

For healthy, expanding businesses that demonstrate a strong potential of creating job opportunities.

504 Financing Structure



15% borrower contribution if project is a start-up or single-purpose building.
20% borrower contribution if project is a start-up and single-purpose building.
* Start-up: businesses in operation less than 2 years.

20-year Term

SBA portion is fully amortized with a fixed interest rate for life of the loan, no balloon.

ADVANTAGES OF A 504 LOAN

For the Borrower

- Greater access to capital for “underserved” markets
- Low Down Payment, which preserves working capital
- Loan fees and closing costs can be included in the loan amount
- Long-Term Financing (10 years or 20 years)
- Competitive, fixed interest rate on SBA loan portion
- Interest rate on Private Sector portion usually more favorable
- Ordinarily, no additional collateral required, other than the assets being financed
- Loan is assumable

For the Private Sector Lender

- Private lender portion of the financing is a stand-alone bank loan. No SBA restrictions.
- Can build a stronger loan portfolio. Lender retains 1st DOT; SBA takes a junior position
- May participate in projects that would normally exceed lending limit
- Excellent lending alternative for projects that are too large for the SBA 7a Program
- Lender’s 1st mortgage can be sold at a premium on the secondary market.

LOAN CONDITIONS

- General SBA eligibility requirements must be met
- Use of 504 proceeds limited to fixed assets (purchase of building, property improvements, construction of a new facility, some equipment)
- Prepayment penalty during the first half of the loan term
- Some financial reporting requirements from borrower
- Method of repayment must be by direct electronic payment
- ½ point Participation Fee charged to Lender

MAXIMUM LOAN AMOUNT

There is no restriction placed on the amount of the Bank loan. However, the SBA portion is limited to 40% of the Total Project or \$5 million, whichever is less. Manufacturers may be eligible for debenture funds up to \$5.5 million.

MINIMUM LOAN AMOUNT

The SBA debenture is normally not less than \$50,000. Total Project Size is, typically, not less than \$125,000.

ELIGIBLE USE OF PROCEEDS

- **Acquisition of land (with a plan for improvements)**
- **Acquisition of existing building(s)**
 - Operating Company (OC) must occupy at least 51%
 - 504 Project funds cannot be used to make tenant improvements
- **Remodel, convert, expand, upgrade, or renovate existing building(s)**
- **Construction of New Building**
 - OC must occupy at least 60%; 80% within 10 years.
 - OC can lease up to 20% of building indefinitely.
- **Construction Contingency Reserve**, not to exceed 10% of construction costs
- **Machinery & Equipment** (generally with at least a 10-year useful life)
- **Professional Fees** (architect, appraisals, surveys, environmental, title insurance, etc.)
- **Repayment of bank's interim points and interest**
- **Community Improvements up to 5% of construction costs**

INELIGIBLE USE OF PROCEEDS

- **Working Capital**
- **Inventory**
- **Debt Refinancing** (except for eligible interim financing)
- **Goodwill** (Projects involving business acquisitions may use 504 funds to finance only the actual cost or appraised value of the fixed assets, whichever is less. Goodwill can be financed by 7a or other means).
- **Tenant Improvements**
- **Incorporation or Other Organizational Costs**
- **Commitment Fees, Finance Broker Fees, Origination Fees of Private Sector Lender**
- **Franchise Fees**
- **Equipment or Furnishings that have less than a 10-year useful life, unless...**
 - Items are an integral part of the project (i.e. hotel furnishings, restaurant furnishings, etc.)
 - Items represent a minor portion of the total project cost
- **Automobiles, Trucks, Airplanes**