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The business loan specialists.

# Entrepreneur Academy: SBA 504 & 7(a) Loan Programs & Updates



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## SBAC Background

- ◆ In full operation since September 1989
- ◆ Specialized, non-profit business development organization licensed by the U. S. Small Business Administration
- ◆ Contracted by the City of Savannah to promote small business development through CDBG revolving loan funds
- ◆ Types of Loans: SBA 504, 7(a) and MicroLoan, City of Savannah Loans (CDBG and EDA), USDA



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# HR 5297 Update

## 1. Fee Reductions:

SBA 504:

extends the authority for fee reductions through December 31, 2010 OR until \$505 million in appropriations to support them is used

SBA 7(a):

extends the authority for fee reductions and 90% guarantees through December 31, 2010 OR until \$505 million in appropriations to support them is used.



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# HR 5297 Update

## 2. Maximum Loan Amounts

### SBA 504

Permanently increases the loan maximum on 504 loans, including public policy loans, to \$5 million, except manufacturer loans and energy loans are increased to \$5.5 million.

### SBA 7(a)

Increases the maximum amount of 7(a) loans to \$5 million gross and \$3.75 million net (or guaranteed amount).



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# HR 5297 Update

## 3. Alternative Size Standard

For *BOTH* SBA 504 & 7(a)

Pending SBA establishment of an alternative applicable to both programs, establishes a standard maximum tangible net worth of \$15 million and 2-year average net income after Federal income tax of \$5 million.



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# HR 5297 Update

## 4. Debt Refinancing

SBA 504 *ONLY*

Establishes a temporary 2-year program of business debt refinancing through the 504 program independent of the usually required job creation/preservation goals of one job for \$65,000. This enables the program to be used for refinance of qualified existing debt without business expansion.



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## New SBA 504 Refinance Provision:

- Assumptions\*:
  - Property must be owner occupied (51% or greater)
  - Debt must be at least two years old
  - Borrower in operation for the entire two year period
  - Proceeds of which must have been used for 504 eligible fixed assets for the benefit of a small business concern
  - Payments must be current for at least one year prior to application
  - Maximum LTV on the existing property is 90%
  - With additional collateral, the maximum LTV on the existing property is 125%
  - Federally guaranteed debt is not eligible for refinancing (7A, 504, USDA)
  - Two year window
    - *\*Details and rules have not yet been published.*



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# HR 5297 Update

## 5. Guarantees of 1<sup>st</sup> mortgage loans

SBA 504 *ONLY*

Extends the sunset on the new temporary program for partial guarantees of the third party loan. The program will expire two years after the date the first pool sale occurs.



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## At a glance – 504 & 7(a)

### SBA 504 Commercial Real Estate

- ◆ Fixed assets PLUS
- ◆ Bank loans 50%, SBA loans 40%, borrower injects 10%
- ◆ Bank retains 1<sup>st</sup> lien (auto 50% LTV), SBA takes a 2<sup>nd</sup> lien
- ◆ Borrower makes 2 payment per month

### SBA 7(a) General Purpose

- ◆ Refinance, working capital, *Business* acquisition/Goodwill
- ◆ Bank funds entire loan and borrower injects at least 10%
- ◆ Bank loan is guaranteed by SBA for 90% of its loss in case of default
- ◆ Borrower makes 1 payment per month



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## SBA 504 Loan Program Eligible Uses of Funds

- ◆ Real Estate Acquisition
- ◆ Construction/Renovation
- ◆ Machinery & Equipment
- ◆ Furniture/Fixtures
- ◆ Soft Costs
- ◆ Some Refinance for Expansions
- ◆ May be required to create/retain 1 job for every 65,000 SBA dollars



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# SBA 504 Loan Program

## Not Eligible for 504 Funding

- ◆ Non-Profits
- ◆ Lending Institutions
- ◆ Businesses who Promote Religion
- ◆ Political/Lobbying Services
- ◆ Alien-Owned/Foreign Owned Companies
- ◆ Working Capital
- ◆ Franchise Fees
- ◆ Marketing
- ◆ Inventory
- ◆ Gambling Concerns
- ◆ Co-Ops
- ◆ Private Clubs
- ◆ Non Owner Occupied RE
- ◆ Speculative Investment
- ◆ Businesses Selling Through Pyramid Plans



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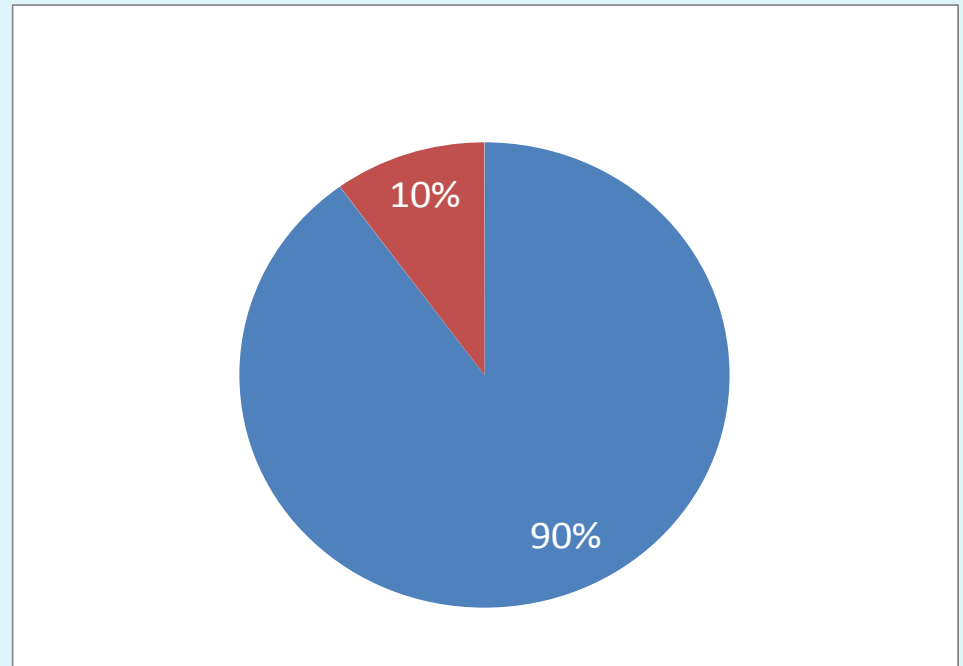
## SBA 504 Loan Program

Bank funds initial 90% advance

- ◆ 50% Bank 1st
- ◆ 40% Bridge 2nd
- ◆ 10% Borrower

or

- ◆ 90% Construction loan
- ◆ 10% Borrower





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# SBA 504 Loan Program

## Source of Funds

- ◆ 50% Bank (1<sup>st</sup> Mortgage)
  - ◆ Bank negotiates terms with borrower
  - ◆ Up to 25 year amortization
  - ◆ No balloons prior to 10 years
  - ◆ Fixed or variable rate
  - ◆ Secondary market sales possible
  - ◆ Origination fees cannot be financed unless construction involved



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## Source of Funds, continued..

- ◆ 40% SBA loan (2<sup>nd</sup> mortgage)
  - ◆ Interest Rate
    - Below Market Rate (fixed) on SBAC portion  
Currently 4.52%
  - ◆ Term
    - 20 Years on SBAC Portion for Real Estate
  - ◆ Dollar Limits
    - No Project Maximum
    - Maximum of \$5,000,000 on SBAC Portion. \$5.5 million maximum for small manufacturer and projects that save 10% in energy consumption
  - ◆ Miscellaneous
    - Assumable
    - Prepayment Penalty for the initial 10 years
    - Life insurance usually require



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## Source of Funds, continued..

- ◆ 10% Equity – Business Owner (minimum)
  - ◆ Cash
  - ◆ Equity in land, if unencumbered
  - ◆ Equity in property, if owned more than 2 years – with appraisal up front
  - ◆ Prepaid expenses (usually within 9 months of application)
  - ◆ Add 5% if single purpose
  - ◆ Add 5% of startup (less than 2 years)



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## SBA 504 Closing Process

### ◆ After SBA approval:

- If construction is involved, bank funds loan equal to costs less borrower injection. Maturity is usually less than 12 months and interest only.
- SBA loan is closed when open for business and C.O. is issued
- Permanent loan closing: bank funds its permanent loan plus a bridge loan for the SBA portion until the debenture is sold
- SBA wires funds to bank after debenture is sold – usually within 60 days after closing – to pay off the bridge financing
- Borrower is left with 2 payments each month



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## SBA 504 Loan Examples

- ▶ Doctor wants to purchase an existing building to open a 2<sup>nd</sup> location. He will lease 35% of the building to a tenant. Expansion is logical and downpayment is 10%.
- ▶ Manufacturer wants to expand its product line and needs to add a building and large equipment. Downpayment can be equity in property if equal to 10%+ and owned 2+ years. Term can be 20 years, even with equipment.
- ▶ Retail shop wants to purchase the building it has been leasing. If owned for 2+ years, downpayment would be 10% and all soft costs can be financed.
- ▶ Applicant wants to open a restaurant for the 1<sup>st</sup> time. He has proper collateral, credit, downpayment (15% required), and business plan. SBA 504 can finance L, B, F/F/E and soft costs.



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## \$1 Million Project Example

Land	\$ 200,000
Construction	\$ 600,000
Contingency	\$ 50,000
Permits	\$ 2,500
Site Preparation	\$ 5,000
Architect/Engineering	\$ 25,000
Machinery/Equipment	\$ 54,000
Signage	\$ 6,650
Closing Costs	\$ 10,750
Appraisal	\$ 4,000
Environmental Report	\$ 2,500
Interim Loan Fee	\$ 9,600
Interim Interest	\$ 30,000

Total \$ 1,000,000

50% Bank	\$500,000
40% SBA 504	\$400,000
10% Borrower	\$100,000
100%	\$1,000,000

Any costs incurred within  
9 months prior to  
submission to SBA are  
eligible toward total  
project costs.

# 504 Property Types

- ◆ Offices
- ◆ Warehouses
- ◆ Hotels / motels
- ◆ Physician Buildings





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# SBA 7A Guaranteed Loans

## SBAC Packaging Services

- ▶ Use of Funds: General Purpose
  - Refinancing
  - Working Capital
  - Inventory
  - Real Estate acquisition
  - Construction
  - Renovation
  - Machinery and Equipment
  - Refinancing
  - Soft Costs



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# SBA 7A Guaranteed Loans

## Source of Funds

- ◆ SBA guarantees 90% until December 31, 2010
- ◆ Bank – SBA Guarantees 75% (85% for loans under \$150,000)

## Interest Rate – can be fixed or variable. If variable, then:

- ◆ If Maturity is under 7 years, rate is not to exceed Prime + 2.25%
- ◆ If Maturity is over 7 years, rate is not to exceed Prime + 2.75%
- ◆ Rates can be higher by 2% for loans of \$25,000 or less
- ◆ Rates can be higher by 1% for loans between \$25,000 and \$50,000



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# SBA 7A Guaranteed Loans

## Maximum Terms

- ◆ Working Capital; 7 years
- ◆ Machinery & Equipment: 10 years or useful life
- ◆ Real Estate: 25 years

## Collateral

- ◆ All available project collateral up to loan amount
- ◆ If collateral is short after proper margins are applied, additional collateral may be required



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## SBA 7A Process Summary

- ◆ Bank verifies with SBAC the structure/borrower is eligible; sends application and financials to SBAC
- ◆ Bank approves loan and terms, contingent upon SBA approval
- ◆ Bank sends credit memo and commitment letter to SBAC
- ◆ SBAC collects packaging fee deposit, prepares application, meets with borrower to sign and sends application to SBA
- ◆ SBA approval of the application, appraisal and environmental (if applicable) are obtained – usually takes 2 weeks
- ◆ Bank closes loan with attorney of its choosing – we recommend 1 who is familiar with SBA Authorizations and closings
- ◆ Bank services the loan and/or sells the guaranteed position

# Getting Started



- ▶ **Questions?** Give us a call and we will be happy to answer your questions about our financing programs and the application process. Call us today at **(888) 287-2137**.
- ▶ Or visit online at **[www.sbacsav.com](http://www.sbacsav.com)** to view Success Stories, Loan Program Details and our Online Application.

# Getting Started

- ▶ Purchase and Sales Agreement or Terms of Sale
- ▶ Cost Breakdown of Project
- ▶ 3 Years of Company Tax Returns and Interim Financial Statements (Existing Business)
- ▶ Business Plan (for Start Up) – Contact SBDC
- ▶ Detailed Schedule of Long-Term Debt
- ▶ Appraisals and Environmental Documents If Available
- ▶ Personal Financial Statement and 3 Years of Personal Tax Returns
- ▶ Authorization to Obtain Credit Report

# SBAC Contact Details



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