

## SBA 504 Program Overview

### **\*\*SBA 504 Program Update resulting from the recently passed Small Business Jobs Bill\*\***

#### **Highlights:**

1. Fee Reductions – Allocates \$505 Million for the continuation of SBA Fee reductions under the American Recovery and Reinvestment Act. Previously allocated funds were exhausted in June 2010. Fee reductions will be extended until December 31, 2010 or until the newly allocated funds are exhausted.

2. Debt Refinancing – Establishes a temporary 2-year program which will allow for eligible business debt refinancing (up to 90%) through the SBA 504 loan program. Here is a summary of the provision:

- 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

3. Maximum SBA 504 Loan Amounts – The loan maximum on the SBA portion of financing is permanently increased to \$5 Million (\$5.5 Million for small manufacturers and borrowers meeting certain Energy Efficiency Public Policy goals). **This means that SBA lenders participate in projects up to \$12,500,000 under the 50/40/10 structure.**

4. Maximum Size limit increase – Maximum Corporate tangible Net Worth increases to \$15MM and two-year average net income after taxes increases to \$5MM. This change will allow the SBA 504 loan program to become a very viable option for Middle Market companies.



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## What is the SBA 504 Program?

- Long-term, fixed rate financing for small to medium size companies
- Used for acquisition of land/building, construction, machinery & equipment
- Provided through non-profit development companies licensed by SBA

## Benefits to Borrowers:

- 20 year, fixed rate financing
- 10% down payment in most cases (except single-purpose and startups)
- Conserve working capital for business growth
- Soft costs can be included in project financing

## Highlights/Terms:

- **Up to 90% Financing on Most Projects**
  - Bank provides 50% of project costs and is in a 1<sup>st</sup> lien position
  - SBA Company provides up to 40% of project costs and is in a 2<sup>nd</sup> lien position
  - Typical project size: \$300,000 - \$4,000,000
- **SBA Loan**
  - 20-year, fully amortizing loan term (for real estate loans)
  - Maximum loan amount is normally \$1,500,000 (higher in certain circumstances)
  - Declining prepayment penalty during first 10 years of loan
- **Bank Loan**
  - Minimum 10 year maturity (for real estate loans)
  - Rate adjustments are allowed
  - Bank can charge ordinary fees and rates
- **Eligibility Requirements for Borrower**
  - Size Limitation: Tangible net worth, < \$8.5 million; profit after tax, < \$3.0 million
  - Occupancy (for real estate loans):
    - Existing building acquisitions:  $\geq 51\%$  of rentable space
    - New construction projects:  $\geq 60\%$  of rentable space

## Example of Typical Transaction:

\$1,000,000 Purchase Price

\$500,000 (50% of project): Lender's portion, in 1<sup>st</sup> lien position.

\$400,000 (40% of project): SBA portion, 2<sup>nd</sup> lien position.

\$100,000 (10% of project): Borrower/ Owner Equity injection.



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<b>PROJECT SIZE:</b>	Most projects are between \$300,000 and \$4 million (but can be as low as \$150,000 and as high as \$10,000,000 for certain NAICS codes or for borrowers fulfilling Energy Public Policy goals)
<b>BANK LOAN:</b>	50% of eligible project costs Minimum maturity 10 years (can be 5+5)
<b>504 LOAN:</b>	30 to 40% of eligible project costs, subordinate to bank
<b>RATE:</b>	Fixed for 10 years, but determined at bond sale <u>after</u> closing. As of 3/1/2010 the rate is 4.18% (10 Year) & 5.44% (20 year).
<b>TERM:</b>	20-year term/amortization or 10-year term/amortization
<b>FEES:</b>	\$1,000 Application Fee; paid upon application \$3,000 Closing Fee; paid up on closing (pays legal, etc.) .26% of total loan amount (bank + SBA)
<b>PREPAYMENT:</b>	Based on debenture rate; declines to zero on straight-line basis over first half of the loan's term. No accelerated payments.
<b>APPRAISAL:</b>	Required.
<b>PHASE I ENV:</b>	Required.
<b>SURVEY:</b>	ALTA survey.
<b>CLOSING:</b>	Closing on the 504 loan occurs on a take-out basis, after the bank has already distributed all the necessary funds on an interim basis and the project is complete. Payments must be made via ACH.
<b>COLLATERAL:</b>	Subordinate lien on project asset. Additional collateral may be required as necessary.
<b>GUARANTORS:</b>	20% and greater owners of the company must personally guarantee.
<b>OCCUPANCY:</b>	Existing building: 51% (other tenant must be structured as sub-lease) New construction: 60-80%
<b>LEASE:</b>	Passive company/operating company leases must show a payment of no more than necessary to amortize debts and pay any expenses of the passive company.
<b>ELIGIBLE COSTS:</b>	Land, Building, Construction, Heavy Equipment, FF&E (if essential), Professional Fees, Interim Interest, Contingency (<10%)

**For additional information, contact Grubb & Ellis' Debt & Equity Transactions Team:**

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