

504 Case Studies

Presented By:

Kyle Kuntz

VP - Loan Officer



Wesley Walsh

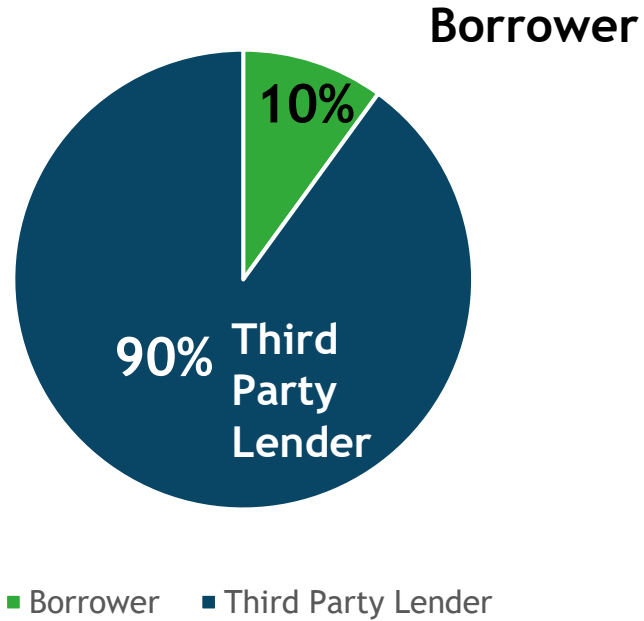
Loan Officer



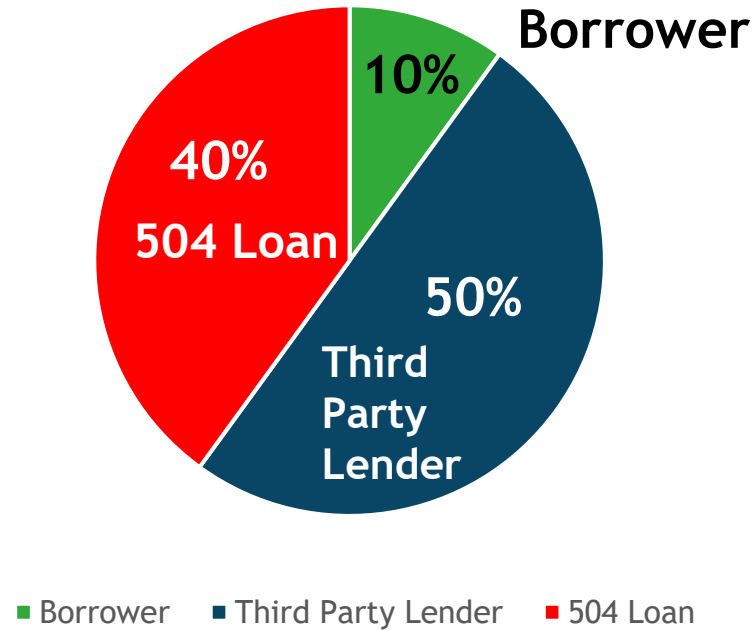
504 Loan Program Overview

- ▶ Established to help businesses looking to acquire, expand, or construct owner occupied commercial real estate and / or equipment with lower down payment requirements than conventional financing to preserve working capital.
- ▶ Program goals include Job Creation and/or Public Policy & Local Development Goals
- ▶ A 504 loan reduces the risk to the participating lender through it's structure as second mortgage financing.
- ▶ 504 loans are funded through a sale of a Debenture that are guaranteed 100% by SBA
- ▶ Administered by SBA through Certified Development Companies like WBD and BLP
- ▶ Low, long term fixed-rate financing (10, 20, or 25 years)
- ▶ Lower down payment requirements than conventional financing

Interim Financing



Permanent Financing: 50-40-10



Typical 504 Loan Structure

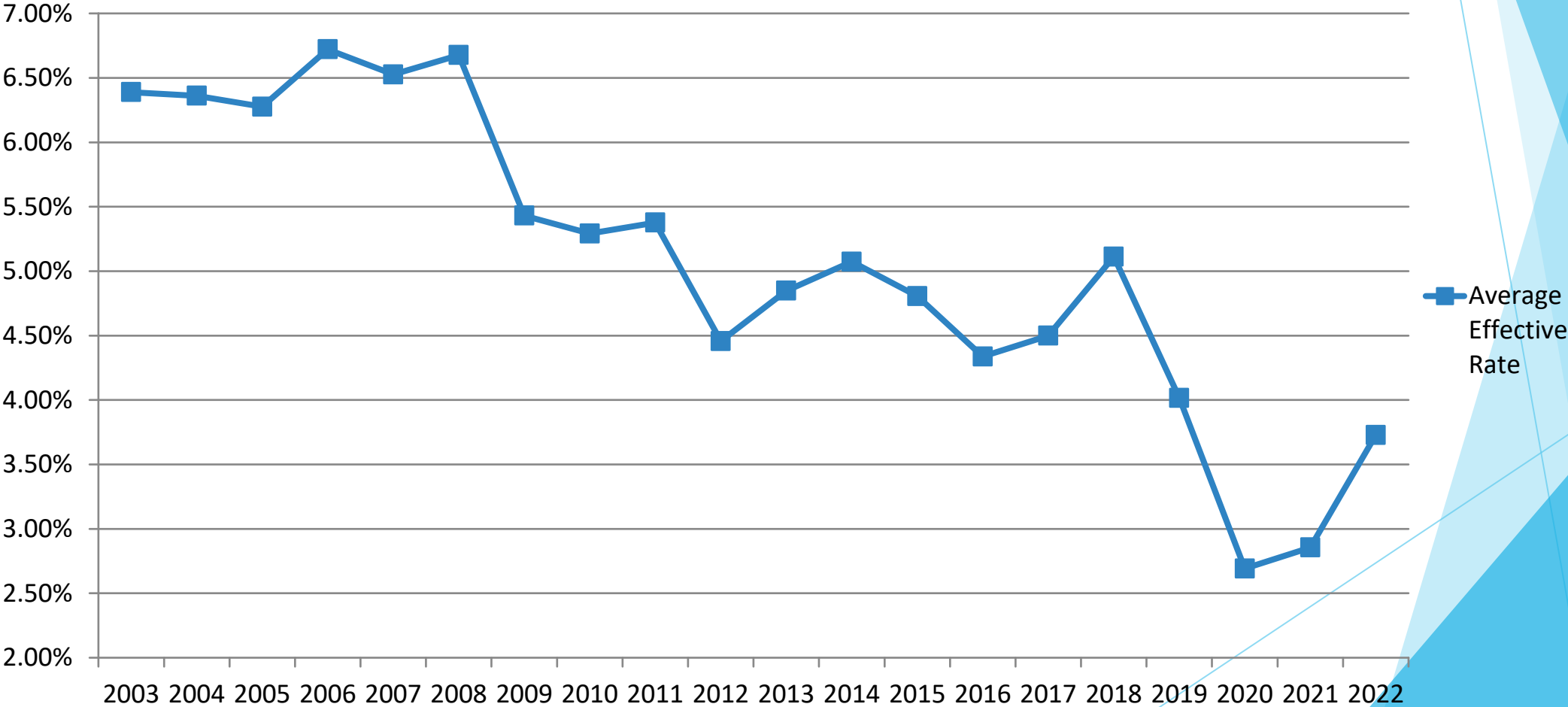
- Third Party Lender's (TPL) portion is a conventional loan
- TPL may take additional collateral during Interim
- 504 portion has 100% SBA guaranty

Competitive Long-Term Fixed Rate

- ▶ **Current Effective 504 Fixed Interest Rates:**
 - ▶ 25 Year - 4.68% (April 2022)
 - ▶ 20 Year - 4.62% (April 2022)
 - ▶ 10 Year - 3.82% (March 2022)

Rate History - 20 Year Effective Rate

Average 20 Year Effective Rate



Eligible Businesses - Lots of them!

- ✓ Must be organized **for profit**
- ✓ Can be either a **new or existing** business
- ✓ Must be 'small' per SBA 504 size standard (including Affiliates)
 - ✓ Tangible **Net Worth ≤ \$15MM** and
 - ✓ 2-year **Average Net Income ≤ \$5MM**
- ✓ Or must be 'small' per SBA 7(a) size standard (including Affiliates)
 - ✓ Maximum Revenue or Employment
 - ✓ Determined by NAICS Code
- ✓ **Ineligible** business types include:
 - ✓ Non-profits; Real estate investment properties; gambling; etc.

Eligibility - Eligible Use of Funds

- ▶ Eligible Use of Funds
 - Owner Occupied Commercial Real Estate
 - Equipment
 - Project Related Eligible Soft Costs
 - Professional Fees
 - Cost of Appraisal & Environmental Reports
 - Interim Interest
 - Refinance w/ Expansion - Up to 100% of expansion costs
 - Permanent Refinance Program
- ▶ **Ineligible 504 Project Costs**
 - Working Capital; Inventory; Other Current Assets
 - “Goodwill”; Other Intangible Assets

Real Life Examples

The background features abstract, overlapping geometric shapes in various shades of blue, ranging from light sky blue to deep navy blue. These shapes are primarily located on the right side of the frame, creating a modern, layered effect against the white background.

Case Studies

▶ Real Life Examples:

1. Real Estate Acquisition
2. Equipment Purchase
3. Business Acquisition
4. New Construction
5. Project Involving a TIF
6. Expansion with Refinance
7. Refinance of Existing 504 with Cash Out
8. Refinance of 7(a)

▶ Questions

#1 - Real Estate Acquisition

- ▶ **Business Background & Current Situation:**
 - ▶ Established youth sports organization that has outgrown their current building
 - ▶ In addition to the real estate purchase, the borrower needs fixtures & equipment to fill the new facility
 - ▶ Project will result in 2 FTE jobs and support a minority, woman-owned business in a rural location
- ▶ **Preliminary Borrower Financing Request:**
 - ▶ Building purchase \$1,425,000
 - ▶ FF&E purchase \$ 210,015
 - ▶ Contingency, Interim Interest \$ 74,984

#1 - Real Estate Acquisition

504 Uses of Funds:		504 Sources of Funds:		
Building Purchase	\$1,425,000	Third Party Lender	\$ 855,000	50.00%
Construction Costs	\$ 210,015	SBA 504	\$ 684,000	40.00%
Soft Costs	\$ 74,985	Borrower Contribution	\$ 171,000	10.00%
Total	\$1,710,000	Total	\$1,710,000	100.00%

▶ Project Considerations:

- ▶ This is an existing business expanding to a new location, so the business is not considered 'new'
- ▶ The property is not considered Special Purpose Property by SBA; therefore, the required Borrower Contribution is 10%
- ▶ Can include a 10% contingency including soft costs such as professional fees and interest expense that is being paid on bank loans during the interim period
- ▶ Standard job creation requirement is 10 (Gross Deb./\$75k rounded up); however, business qualified as rural, ethnic minority-owned, and woman-owned

#2 - Equipment Purchase for Repeat Borrower

▶ **Business Background and Current Situation:**

- ▶ Well established plastics thermoforming company
- ▶ Existing equipment is operating at capacity
- ▶ Owner's looking to purchase a third plastics extruder and ancillary equipment to accompany two new, leased thermoformers
- ▶ Borrower's goal is to continue acquiring equipment as quickly as possible with maximum leverage

▶ **Preliminary Financing Request:**

- ▶ Total Equipment Cost: \$3,849,131

#3 - Business Acquisition

▶ **Background & Current Situation:**

- ▶ Business acquisition of a full service equipment and party rental store.
- ▶ Buyer / Borrower has 20 + years of relevant business & management experience in this industry
- ▶ Structured as an Asset Sale - Buyer & Seller agreed to a price and allocation was finalized upon receipt of appraisals
- ▶ Third Party Lender contacted CDC early in the process to discuss potential financing solutions - Both 504 and 7a were utilized

▶ **Preliminary Borrower Financing Request:**

- ▶ Overall Purchase Price - \$4,550,000

#3 - Business Acquisition

▶ Project Considerations:

- ▶ Appraisal on Real Estate came in at \$700,000; Appraisal on F&E came in at \$2,283,700. Purchase price was allocated as follows:
 - ▶ Real Estate - \$700,000
 - ▶ F&E - \$2,283,700
 - ▶ Inventory - \$19,600
 - ▶ Goodwill - \$1,546,700
- ▶ 504 Structure Financed the Real Estate - Considerations:
 - ▶ Since we had an experienced borrower buying a going concern business, we argued a non-new business. The property wasn't considered special purpose, therefore, the minimum required borrower contribution was 10% on the 504.
 - ▶ Structured with a 25 Year Debenture
- ▶ 7a Structure Financed the F&E, Inventory, and Goodwill - Considerations:
 - ▶ Independent Business Valuation supported the structure
 - ▶ Borrower brought in 10% equity to meet the 7a requirements
 - ▶ Structured with a 10 Year 7a Note

#3 - Business Acquisition

► 504 Structure

504 Uses of Funds:		504 Sources of Funds:		
Land & Building	\$700,000	Third Party Lender	\$355,000	50.0%
Soft Costs	\$10,000	SBA 504 Loan	\$284,000	40.0%
		Real Estate Equity	\$71,000	10.0%
Total	\$710,000	Total	\$710,000	100.0%

► Overall Financing Structure:

Use of Funds	TPL - 504	SBA 504 Loan	504 Borrower Contribution	SBA 7a Note	7a Borrower Contribution	RLOC for Working Capital	LOC for Equipment Purchases	Total
Land & Building Purchase	\$ 355,000.00	\$ 284,000.00	\$ 61,000.00					\$ 700,000.00
Soft Costs - 504			\$ 10,000.00					\$ 10,000.00
Purchase Inventory				\$ 19,600.00				\$ 19,600.00
Purchase FF&E				\$ 2,283,700.00				\$ 2,283,700.00
Purchase Goodwill				\$ 1,259,500.00	\$ 287,200.00			\$ 1,546,700.00
Working Capital					\$ 100,000.00			\$ 100,000.00
Soft Costs - 7a					\$ 8,695.00			\$ 8,695.00
Future Working Capital						\$ 100,000.00		\$ 100,000.00
Future Equipment Purchases							\$ 250,000.00	\$ 250,000.00
Total	\$ 355,000.00	\$ 284,000.00	\$ 71,000.00	\$ 3,562,800.00	\$ 395,895.00	\$ 100,000.00	\$ 250,000.00	\$ 5,018,695.00

#4 - New Construction

▶ **Business Background & Current Situation:**

- ▶ Startup fixed-base operator (provider of services to private aviation) that is currently operating an affiliated private aviation company
- ▶ New business will service the affiliated company along with third party clients
- ▶ Looking to construct a new 60,000 square foot facility on the grounds of a publicly owned airport
- ▶ Project will create 15 jobs

▶ **Preliminary Financing Request:**

- ▶ Construction - \$10,014,388
- ▶ Equipment - \$573,720
- ▶ Professional Fees - \$210,000
- ▶ Contingency - \$160,650

#4 - New Construction

▶ Project Considerations:

- ▶ Startup business requires 15% equity injection. The entire equity injection was raised from outside investors.
- ▶ Project was short on job creation, so eligibility was established using the community development goal of stimulating business. This claim was supported by a letter from the municipality that manages the airport.
- ▶ Ground lease was reviewed and meets SBA requirements.

504 Structure:

504 Uses of Funds:		504 Sources of Funds:		
Construction	\$10,014,388	Third Party Lender	\$5,479,379	50.00%
Equipment	\$573,720	SBA 504	\$3,835,565	35.00%
Professional Fees	\$210,000	Borrower Contribution	\$1,643,814	15.00%
Contingency	\$160,650			
Total	\$10,958,758	Total	\$10,958,758	100.00%

#5 - Project Involving TIF

▶ **Business Background & Current Situation:**

- ▶ Long-established natural and organic health and organic foods store in Northern WI
- ▶ Utilized a 504 in 2015 to finance a 17,000 sq ft store in Northern WI
- ▶ Looking to do a small expansion at their existing location to add products & services
- ▶ In addition, they are looking to expand into a new market and build a second location
- ▶ Strong Municipal Support and Assistance - New site located in a TIF
- ▶ Borrower & lender like the 504 program and are interested in using it for the 2nd location but are unsure how the municipal assistance affects a potential 504 structure.

▶ **Preliminary Borrower Financing Request:**

- ▶ Construction - \$2,047,000
- ▶ F&E - \$1,038,000
- ▶ Expansion at Existing Store - \$53,000

#5 - Project Involving TIF

▶ Project Considerations:

- ▶ Borrower entered a development agreement with the municipality. Municipality sold the land for \$1. “as-is” appraised value came in at \$445,000.
- ▶ In addition, the municipality provided a \$200,000 grant incentive - \$100,000 to paid out after occupancy, and two \$50,000 payments over the next two years.
- ▶ Third Party Lender provided a conventional loan secured with the TIF Receivable. Set up on interest only, with principal reductions in line with the TIF payout.
- ▶ Existing business, multi-use property, so minimum required borrower contribution is 10%.
- ▶ Supplier is an approved brand on SBA Franchise Registry
- ▶ Maximized the benefit of the TIF proceeds, to reduce leverage on new location
- ▶ Existing 504 has a balance of \$770,000

***** Get your CDC involved early on in the process on projects involving a TIF. Preference is to get a copy of the development agreement in a draft form.***

#5 - Project Involving TIF

► 504 Structure:

504 Uses of Funds:		504 Sources of Funds:		
Land Equity	\$445,000	Third Party Lender	\$1,704,000	46.5%
Construction	\$2,047,000	SBA 504 Loan	\$1,466,000	40.0%
FF&E	\$1,038,000	Real Estate Equity	\$445,000	12.1%
Contingency	\$99,000	Borrower Contribution - TIF		
Soft Costs	\$36,000	Receivable Loan	\$50,000	1.4%
Total	\$3,665,000	Total	\$3,665,000	100.0%

► Overall Sources & Uses:

Use of Funds	Third Party Lender	SBA 504 Loan	Land Equity	TPL - TIF Receivable Loan	Total
Land Equity			\$ 445,000.00		\$ 445,000.00
Construction	\$ 1,704,000.00	\$ 293,000.00		\$ 50,000.00	\$ 2,047,000.00
FF&E		\$ 1,038,000.00			\$ 1,038,000.00
Contingency		\$ 99,000.00			\$ 99,000.00
Soft Costs		\$ 36,000.00			\$ 36,000.00
Expansion at Existing Store				\$ 53,000.00	\$ 53,000.00
Working Capital				\$ 3,451.00	\$ 3,451.00
Payoff Existing Conv. Note				\$ 93,549.00	\$ 93,549.00
Total	\$ 1,704,000.00	\$ 1,466,000.00	\$ 445,000.00	\$ 200,000.00	\$ 3,815,000.00

#6 - Expansion with Refinance

- ▶ **Business Background & Current Situation:**
 - ▶ Long established commercial general contractor
 - ▶ Purchased current facility on land contract in May of 2019
 - ▶ Current building is 39,000 square feet that is a mix of light manufacturing and office space
 - ▶ Looking to add 4,500 square feet for additional office space, breakroom, and conference room
 - ▶ Business will act as its own general contractor
- ▶ **Preliminary Borrower Financing Request:**
 - ▶ Land Contract Balance - \$1,259,000
 - ▶ Construction Cost - \$1,450,000

#6 - Expansion with Refinance

504 Uses of Funds:		504 Sources of Funds:		
Real Estate Equity	\$735,000	Third Party Lender	\$1,363,000	39.4%
Construction	\$1,450,000	SBA 504 Loan	\$1,363,000	39.4%
Refinance Land Contract	\$1,259,000	Real Estate Equity	\$735,000	21.2%
Soft Costs	\$17,000			
Total	\$3,461,000	Total	\$3,461,000	100.0%

▶ Project Considerations:

- ▶ Existing business and the project property isn't considered special purpose, therefore, the minimum required borrower contribution is 10%.
- ▶ Business has owned the real estate for more than 2 years, so real estate equity was used as the borrower contribution. "As-Is" Appraised Value Came in at \$1,994,000 - Real Estate Equity available was \$735,000 ("As-Is" Appraised value of \$1,994,000, less current Land Contract Balance of \$1,259,000).
- ▶ "As-Complete" Appraised Value came in at \$3,325,000, which came in at 96.07% of the total project costs, which was acceptable to SBA. At minimum, the "as-complete" value needs to come in at 95% of cost.
- ▶ Two competing bids were required, as the borrower was acting at its own General Contractor
- ▶ Land Contract met Refinance Criteria:
 - ▶ Land contract originally financed a 504 eligible cost
 - ▶ Borrower was current on payments for the past 12 months
 - ▶ Balance did not exceed 100% of the expansion cost

#7 - Refinance of an existing 504 with cash out

▶ Business Background & Current Situation:

- ▶ Established business operating multiple hospitality properties in Door County
- ▶ In 2013, the CDC originated a 504 loan for the borrower to refinance bank debt on two properties they have owned and operated since 1992
- ▶ Refinance will reduce monthly payments by 17% and provide cash out for eligible business expenses
- ▶ Project will create 3 FTE and retain 18 FTE - all current jobs are retained

▶ Preliminary Borrower Financing Request:

- | | |
|----------------------|-------------|
| ▶ Real Estate Equity | \$2,630,000 |
| ▶ Debt Refinance | \$1,667,000 |
| ▶ Cash out | \$ 848,000 |

#7 - Refinance of an existing 504 with cash out

▶ 504 Structure:

504 Uses of Funds:		504 Sources of Funds:		
Real Estate Equity	\$2,630,000	Third Party Lender	\$1,287,750	25.03%
Debt Refinance	\$1,667,000	SBA 504	\$1,237,250	24.05%
Cash Out	\$848,000	Real Estate Equity	\$2,630,000	50.92%
Total	\$5,145,000	Total	\$5,145,000	100.00%

▶ Project Considerations:

- ▶ Cash out is limited to 20% of the appraisal value of the collateral
- ▶ Cash out will fund payroll expenses over the next 18 months, allowing the business to preserve operating cash flow to fund growth of the business
- ▶ Loan-to-value is 49%, well below the 85% limit for refinance with cash out projects
- ▶ The SBA financing will be completed as a 25-year debenture

#8 - REFI of a 7(a)

▶ **Business Background & Current Situation:**

- ▶ Long established CNC machine shop
- ▶ In 2017, the current lender utilized a SBA 7a loan to consolidate 14 loans, a mix of both real estate and equipment debt. Set up on a 20 year 7a loan.
- ▶ In the Spring of 2021, the current lender utilized a SBA 7a loan to finance 2 pieces of manufacturing equipment and a vehicle. Set up on a 10 year 7a loan.
- ▶ Both 7a loans are sold on the secondary market
- ▶ Both 7a loans were floating at Prime + 1%; borrower was concerned about rising rates and requested a fixed rate option

▶ **Preliminary Borrower Financing Request:**

- ▶ Refinance 7a Loan from 2017 - Balance of \$4,182,000
- ▶ Refinance 7a Loan from Spring of 2021 - Balance of \$454,000

#8 - REFI of a 7(a)

▶ Project Considerations:

- ▶ Both 7a loans met the qualified debt criteria:
 - ▶ Loans were incurred more than 6 months ago and no modifications within the past 6 months
 - ▶ 85% or more of the original use of proceeds was used to acquire a 504 eligible asset - SBA required we submit the documentation of the 14 notes that were consolidated back in 2017 to confirm each of those notes there were refinanced met the 85% or more test
- ▶ Since this was same institution 7a debt refinance, the third party lender was required to provide written documentation that they were unable to modify the terms of each note because the secondary market investor will not modify terms (if these weren't sold on the secondary market, this wouldn't have been eligible)
- ▶ Restructure provided a 30.4% cash flow savings - Minimum of 10% is required when refinancing existing government guaranteed debt
- ▶ 7a notes were mixed use (Real Estate and Equipment) - Current Appraisals came in as follows:
 - ▶ Equipment - \$4,533,000 (excluded rolling stock)
 - ▶ Real Estate - \$1,775,000
- ▶ Weighted Average Remaining Economic Useful Life of the Real Estate and Equipment was 21 years, therefore, this was structured with a 20 year Debenture

#8 - REFI of 7(a)

▶ 504 Structure:

504 Uses of Funds:		504 Sources of Funds:		
Equity	\$1,648,000	Third Party Lender	\$2,330,000	36.9%
Refinance 7a Loan	\$4,182,000	SBA 504 Loan	\$2,330,000	36.9%
Refinance 7a Loan	\$454,000	Equity	\$1,648,000	26.1%
Soft Costs	\$24,000			
Total	\$6,308,000	Total	\$6,308,000	100.0%

Summary

- ▶ Fixed Asset Request > \$350M? Think 504!
- ▶ Provides an affordable payment structure, with long term financing commitments
- ▶ Borrower hedges interest rate risk on up to 40% of the financing structure
- ▶ Helps your customers preserve working capital with lower down payment requirements than conventional financial
- ▶ Very comfortable post debenture funding LTV position (typically 50%)
- ▶ Contact your CDC early on in the process!

Questions?

Presenter Contact Information



Kyle Kuntz
Vice President - Loan Officer
Website: www.wbd.org
kkuntz@wbd.org
Office: (715) 575-5805
Cell: (715) 225-4939



Wesley Walsh
Loan Officer
Business Lending Partners
wesley@blp504.org
Office: (262) 898-7436
Cell: (920) 378-8009