



## SBA 504 INTEREST RATE UPDATE

September 2009

**REAL ESTATE LOANS:** The Effective Interest Rate as of **September 2009 – 5.14%** fixed for 20 years. Requirements - Borrower must occupy 51% of space or 60% if new construction.

**EQUIPMENT LOANS:** The Effective Interest Rate as of **September 2009 -4.26%** fixed for 10 years. Requirements - Equipment must have 10 year useful economic life. (**priced every other month**)

### Advantages of Working With ASBC

- 1.) **Bank Participation Fee** - We can pay a portion of the ½ point Lender Participation Fee, up to \$2,000. (**currently paid in full as offered with the stimulus**)
- 2.) **Deposits & Application Fees** - We charge no customer deposits or application fees; your customer pays nothing until closing.
- 3.) **Legal Fees** - We can fund legal fees in the 504 loan to avoid out of pocket expenses for the borrower.
- 4.) **Simultaneous Bank and 504 Loan Closing** - We close our loan documents at the time of bank closing, reducing customer inconvenience.
- 5.) **504 Expertise** - Our experienced staff has over 20 years of combined experience.

### 504 Program Information

#### **TYPES OF 504 PROJECTS**

504 loans can finance a wide variety of projects including, manufacturing businesses, condominiums, restaurants, hotels, franchises, special purpose buildings, and start- ups.

#### **SIZE OF 504 PROJECTS**

504 loans can finance projects as small as \$125,000 (the 504 loan would be \$50,000) as well as projects as large as \$10,000,000 (the 504 loan would be up to \$2,000,000 or \$4,000,000 if manufacturing).

#### **504 PROGRAM ADVANTAGES:**

1.) As small as 10% down payment allows customer to preserve cash. 2.) Long-term 20-year fixed rate greatly reduces customer interest-rate risk. 3.) Bank receives first lien/first security interest. 4.) Bank sets own rate, fees & covenants.

### Direct Loan Program

- 1.) Sub-debt assistance for financing gaps (low appraisals, cost overruns, etc.) on 504 projects.
- 2.) Prime, fixed rate.
- 3.) Loans up to \$250,000 per project.

### Area of Operations

Alabama – Statewide

## Stimulus Bill Updates....

### **Debt Refinancing and the SBA 504 Loan Program**

**SBA Goodwill Financing Cap increased to \$500,000** - The new SOP states that if the purchase of the business acquisition includes intangible assets in excess of \$500,000 (including, but not limited to, goodwill, client/customer lists, patents, copyrights, trademarks and non-compete agreements), the borrower and/or seller must provide an equity injection of at least 25% of the purchase price. For example, the borrower may provide 15% and the seller may provide 10%.

- **Limited Debt Refinancing is allowable when:**
  - There is business expansion which includes a **new** SBA 504 loan request, and
  - The refinanced debt does not exceed 50% of projected expansion cost (1/3 of Total Project Costs)
- **Business Expansion** = Any project that involves acquisition, construction or improvement of land, building or equipment for use of the small business applicant.
- **All loans refinanced in the Project must have been used to acquire fixed assets eligible in the 504 program**
- **The 504 eligible fixed asset collateral securing any refinanced debt must secure the 504 loan**
- **The financing must provide a substantial benefit to a borrower**
- **Substantial Benefit** = that the portion of the new installment (P & I) amount of the debt being refinanced must be at least 10% less than the existing installment amount(s).
- **May refinance:**
  - Existing 504 loans
  - Existing 7(a) may be refinanced only if verified current lender is unwilling or unable to modify current loan
  - If 7(a) lender is refinancing “Same Institution Debt” -- eligible for 504 refinancing only if the lender is unable to modify the terms of the existing loan because a secondary market investor will not agree to modified terms.
- **Proceeds only for refinancing of:**
  - Existing debt and
  - Costs relating to the project financed (i.e., fees and penalties)
- **Multiple loans may be refinanced**
- **Borrower must be current on debt for at least 1 year prior to date of refinancing**
- **Date of refinancing** = the date the 504 loan is approved by SBA
- **CDC must submit a transcript of account, or similar documentation containing detailed 12 month payment history from the lender**
- **Financing must provide:**
  - **Better terms and/or Interest Rate than the existing indebtedness on the date of refinancing.**
  - **Example:**
    - Longer maturity, and or
    - Lower Interest Rate for 3<sup>rd</sup> Party Lender Loan or 504 Loan,
    - Less restrictive loan covenants