

Northwest Piedmont Development Corporation

U.S. Small Business Administration 504 Loan Program Information

**Charles Malone
Northwest Piedmont Development Corporation
400 West Fourth Street, Suite 400
Winston-Salem, NC 27101-2805
cmalone@nwpcog.org
336.761.2111 ext. 3158**

NOTICE

IMPORTANT INFORMATION ABOUT IDENTIFICATION PROCEDURES WHEN OBTAINING A 504 LOAN

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all Certified Development Companies to obtain, verify, and record information that identifies each person who applies for a 504 Loan.

What this means for you: When you apply for a 504 Loan, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

About Us

Since becoming a Certified Development Company (CDC) in August 1984, Northwest Piedmont Development Corporation (NWPDC) has administered the U.S. Small Business Administration (SBA) 503/504 Program in the northwest piedmont region of North Carolina.

Purpose

The purpose of the 504 program is to create or retain permanent jobs by providing fixed asset financing to help small businesses purchase, construct or expand their facilities. The major benefits of this program are: (1) low, fixed rate financing; (2) a long repayment term; (3) most soft costs are eligible project expenses; and, (4) typically, a lower down payment requirement. The program may also assist eligible start-up businesses.

Eligibility

Economic Development Criteria

One permanent job should be created or retained for every \$65,000 of debenture monies loaned, with those jobs to be in place within two years of the completion of the project. The job creation requirement is reduced to \$100,000 for manufacturing projects. If a project does not meet the job creation standard, it may still qualify by meeting a public policy or community development goal.

Use of Proceeds

Loan proceeds are for fixed assets only, with a useful life at least equal to the maturity of the debenture. The loan may not be used for working capital or to refinance existing debt *. The following costs are eligible uses:

- Acquisition of land (actual cost)
- Improvements including grading, street improvements, and parking lots
- Utilities
- Landscaping
- Construction or acquisition of a building
- Leasehold improvements (lease term must equal or exceed the repayment term)
- Purchase of machinery and equipment with a useful life of at least 10 years
- Contingency reserve of up to 10% of construction costs
- Professional fees such as surveying, appraising, accounting, engineering, architectural, and legal costs (all fees/costs must be necessary to the project)
- Interim loan interest and points

* On June 23, 2009, a rule change allowing a limited amount of refinancing was implemented. Refinanced debt of up to 50% of the cost of an expansion project can be included in a 504 project – on a \$2,000,000 expansion project, the amount of refinancing is limited to \$1,000,000 (additional stipulations apply).

Use of Fixed Assets

The borrower or its operating company must be the user of the fixed assets purchased with loan proceeds. Since this program is designed for owner/users, there are limitations on the amount of space that can be leased to other entities. When an existing facility is purchased, the borrower must occupy at least 51% of the facility. When new construction is involved, the borrower may lease out up to 40% of rentable space on a short-term basis or up to 20% on a long-term basis; there must be a planned need to occupy additional space within three years and all space (except space leased out on a long-term basis) within ten years.

Business Size Standards

Under the 504 program, a business (including affiliated entities) qualifies as a small business if its tangible net worth does not exceed \$8.5 million and its average after-tax income for the two preceding fiscal years did not exceed \$3 million.

Type of Business

Eligible businesses include most for-profit businesses. Examples of ineligible businesses include:

- Not-for-profit businesses (for profit subsidiaries are eligible)
- Financial businesses
- Speculative or passive businesses (such as developers or landlords for investment)
- Businesses engaged in gambling
- Businesses that restrict patronage
- Businesses engaged in promoting religion
- Consumer and marketing cooperatives

Loan Amount

The maximum SBA loan amount (which ranges up to 40% of total project costs) is based on the type of project. The project categories are:

- **\$1,500,000** for job creation projects (create or retain 1 job for every \$65,000 of SBA participation)
- **\$1,500,000** for community development projects (no job creation requirement*)
- **\$2,000,000** for public policy goal projects (no job creation requirement*)
- **\$4,000,000** for manufacturing projects (create 1 job for every \$100,000 of SBA participation)

* Subject to the CDC's portfolio meeting SBA job creation requirements.

In each case, the maximum SBA loan amount is also SBA's maximum exposure with any one borrower, including affiliates.

Community Development Goals

Community development goals include the following:

- Improve, diversify or stabilize the local economy
- Stimulate other business development
- Bring new income into the community
- Assist manufacturing firms
- Assist businesses in Labor Surplus Areas (as defined by the Department of Labor)

Public Policy Goals

Public policy goals include the following:

- Revitalize the business district of a community with a written revitalization or redevelopment plan
- Expand exports
- Expand woman-owned business development*
- Expand veteran-owned business development*
- Expand minority enterprise development*
- Aid rural development
- Increase productivity and competitiveness (retooling, robotics, or modernization)
- Modernize or upgrade facilities to meet health, safety, and environmental requirements
- Assist businesses in or moving to areas affected by Federal budget reductions
- Incorporate energy saving technologies for sustainable design

* The person(s) being assisted must have at least 51% ownership and be active in day-to-day operations.

Loan Participation Structure

SBA regulations typically require 504 projects to be structured as follows:

Typical

Bank Participation:	50%
SBA/CDC:	40%
Equity:	10%

New Business (2 years or less)

Bank Participation:	50%
SBA/CDC:	35%
Equity:	15%

Single-Purpose*

Bank Participation:	50%
SBA/CDC:	35%
Equity:	15%

New Business & Single-Purpose

Bank Participation:	50%
SBA/CDC:	30%
Equity:	20%

* As defined in the Dictionary of Real Estate Appraisal; examples include: gas stations, motels, car washes, bowling alleys, marinas or any other structures that have limited marketability or require great expense to render marketable.

Examples:

Typical

Bank Participation	50%	\$ 500,000
SBA/CDC	40%	400,000
Borrower's Equity	10%	<u>100,000</u>
Total Project		\$1,000,000

New Business OR Single-Purpose

Bank Participation	50%	\$ 500,000
SBA/CDC	35%	350,000
Borrower's Equity	15%	<u>150,000</u>
Total Project		\$1,000,000

New Business & Single-Purpose

Bank Participation	50%	\$ 500,000
SBA/CDC	30%	300,000
Borrower's Equity	20%	<u>200,000</u>
Total Project		\$1,000,000

Creditworthiness

The small business concern must meet the reasonable credit requirements of prudent lenders, including:

- Adjusted cash flow sufficient to meet debt service requirements.
- Adequate collateral pledged to secure the loan.
- The company's management should be experienced and adequate to operate the company profitably.
- Persons or entities having 20% or more ownership must guarantee the loan; other guaranties may also be required.
- The borrower must have funds available to support working capital needs.

Program Benefits

Borrower

- Helps conserve working capital.
- Soft costs can be included in the project budget.
- Longer repayment term reduces debt service thereby improving cash flow.
- Useful life of the fixed asset is matched with repayment terms.
- Secondary lien position of the SBA 504 loan attracts bank participation.

Participating Lender

- Loan risk is reduced since the lender generally provides permanent financing for 50% of project costs and receives first lien on the collateral.
- Helps better meet customer's borrowing needs with favorable rates and terms.
- Creating new jobs helps promote goodwill in the community and increase the number of potential customers for the institution.
- NWPDC prepares the SBA loan application and related documents as well as services the loan, which eliminates additional paperwork.

Loan Procedures

504 Approval Process

NWPDC staff prepares a loan review package to be reviewed by its Board of Directors. If approved, NWPDC staff forwards an application to the SBA's 504 Central Processing Unit. SBA reviews the application and, if approved, issues an "Authorization For Debenture Guarantee", which is SBA's commitment to guarantee the debenture issued by NWPDC.

Interim or Construction Financing

After acceptance of the terms and conditions of the "Authorization For Debenture Guarantee" by the small business, an interim loan from the participating lender funds the construction or acquisition of the fixed assets. The interim loan is usually equal to the bank's permanent loan amount plus the net proceeds from the SBA 504 loan (totals 80-90% of eligible project costs).

Closing

The closing for the SBA loan (debenture) is scheduled after NWPDC, in conjunction with the participating lender, has verified expenditures upon completion of the project. The loan documents are executed by the borrower and forwarded to SBA for review prior to the debenture sale. This method of closing and delayed funding is referred to as a "dry closing".

Funding

After review and approval of the loan closing documents, SBA allows the debenture to fund. Debentures are pooled together and sold to private investors. Twenty-year debentures fund monthly and ten-year debentures fund every other month. The interest rate for the life of the loan is set at the time of funding. The debenture sale generates the funds for the 504 loan, which is remitted directly to the participating lender via wire transfer. This process is how the participating lender's construction or interim loan is paid down to the permanent loan amount.

Servicing

NWPDC has overall servicing responsibility for the SBA 504 loan. In the event of questions or any other type of request, the borrower or participating lender simply contacts NWPDC as the single point of contact. NWPDC, in turn, follows up with SBA for loan servicing actions or Colson Services Corporation for accounting questions. Colson receives all 504 loan payments, performs loan accounting functions and ensures that semi-annual debenture payments are remitted.

Loan Program Features

Interest Rates

The interest rate on the debenture is set when it is sold. The interest rate established at the time of the debenture sale is fixed for the life of the loan. The interest rate on the bank loan is determined by the lender.

Fee Payment

Borrowers are not required to pay SBA/CDC fees up front. Classified as administrative costs, those fees are included in the debenture and repaid over the term of the loan.

Loan Assumption

SBA 504 loans are assumable, subject to the new borrower satisfactorily meeting the credit standards of the participating lender and eligibility requirements of SBA. An assumption may be advantageous for the seller as well as the buyer since it serves to reduce legal costs, eliminate prepayment premiums, and allows the continuance of favorable fixed rate financing.

Paperwork

NWPDC packages the 504 loan documentation for the borrower. The participating lender is only required to provide a commitment letter and a credit report for the application.

Loan Program Requirements

Repayment Terms

- SBA 504 Loan – ten or twenty years depending on the useful life of the fixed assets.
- Participating Lender's Loan – not less than ten years when the 504 loan term is twenty years and not less than seven years when the 504 loan term is ten years.

Repayment Method

On the first business day of each month, Colson Services Corporation automatically drafts the scheduled payment from the borrower's bank account.

Insurance Requirements

- Hazard insurance is required on all loan collateral at full replacement cost.
- Life insurance assignment(s) equal to the amount of the debenture may be required when loss of key management could be expected to adversely impact repayment ability.
- Flood insurance is required if collateral property is located in a Federal Insurance Administration designated "special hazard area" (areas subject to flooding, mud slides or erosion).

Fees

- Initial fees of approximately 2.15% are based on and included in the debenture amount. These administrative charges include the CDC processing fee (1.50%), funding fee (.25%) and underwriting fee (.40% of twenty-year debentures or .375% of ten-year debentures).
- For loans approved between 10/01/09 and 09/30/10, the annual servicing fees are 1.114% (CDC fee of .625% plus borrower fee of .389% plus fiscal servicing agent fee of .10%). These on-going fees are included in the monthly payments and are based on the declining outstanding debenture balance at five-year intervals.
- A one-time lender participation fee of .50% of the first lien amount attributed to the project is charged to the lender.

Legal Fees

The borrower is responsible for paying all legal fees related to closing the 504 loan. This includes the CDC attorney fee which is fixed at \$2,500. At the time of application, borrowers may choose whether to pay the CDC attorney fee at closing or finance it as an administrative charge in the debenture. Please refer to the "Loan Fee Deposit and Attorney Fee Agreement" for additional information.

Late Fees

Loan payments received after the 15th of the month are subject to a late fee equal to \$100 or 5% of the scheduled payment, whichever is greater.

Prepayment

A 504 loan may be prepaid prior to its maturity date, however, partial prepayments are not allowed. When prepaying a 504 loan, borrowers must provide at least 30 days written notice. Colson Services Corporation (the fiscal servicing agent) prepares payoff statements and processes all prepayments as of the third Thursday of a given month. Prepayments are based on and effective as of the next semi-annual debenture payment. Prepayment during the first half of the loan term is subject to a prepayment premium that is based on the debenture balance and a declining percentage of the annual interest accrual. There is no premium if prepayment occurs during the second half of the loan term.

Disclaimer

The information contained in this booklet is for informational purposes only and should not be construed as "all inclusive" or as an offer of financing. All information presented herein is believed to be accurate but is not warranted. The 504 loan program is administered by the U.S. Small Business Administration and is subject to change without notice.

Other SBA Programs

If your project does not qualify for the SBA 504 loan program, it may qualify under other programs.

For Additional Information

Please contact Charles Malone of the Northwest Piedmont Development Corporation at 336.761.2111 or via e-mail at cmalone@nwpcog.org. For additional information and links to other resources, please visit the economic development portion of our website www.nwpcog.org.

Revised 10/09

LOAN FEE DEPOSIT AND ATTORNEY FEE AGREEMENT

1. The undersigned hereby deposits with the Northwest Piedmont Development Corporation (the "CDC") the sum of \$_____, (which sum shall be the lesser of \$2,500.00 or 1.0% of the amount of the debenture applied for), subject to the following terms, conditions and provisions:
 - (a) This deposit is submitted to the CDC in connection with the loan application by the undersigned for a loan to the undersigned pursuant to the U.S. Small Business Administration 504 Loan Program.
 - (b) In the event that the loan application of the undersigned is approved by the CDC but is not approved by the U.S. Small Business Administration (SBA), the undersigned will receive a refund of the entire deposit upon receipt by the CDC of written evidence from the SBA of rejection of the application.
 - (c) In the event that the loan application of the undersigned is approved by CDC and SBA and the loan in fact closes, the undersigned will receive a credit in the amount of the deposit, which will be applied to the loan fee due the CDC upon disbursement to the CDC of funds from the proceeds of the debenture sold in connection with the undersigned's loan.
 - (d) If after the loan application of the undersigned is approved by CDC and SBA, the undersigned withdraws the loan application, fails to take such action as is necessary to consummate the loan transaction in a timely manner or does not close for any reason not the fault of the CDC, then the entire deposit will be deemed to have been earned by the CDC in processing the application of the undersigned.
2. In addition to the foregoing, the undersigned agrees to and acknowledges the following:
 - (a) The CDC requires the participation of the firm of Doughton & Hart, PLLC as counsel for CDC during the CDC loan closing process. The undersigned can select Doughton & Hart, PLLC to perform additional services in connection with this project, which service can include acquisition of project real estate, placement of construction financing and placement of the CDC loan.
 - (b) The undersigned agrees to reimburse the CDC and Doughton & Hart, PLLC, the amount of \$2,500.00 for legal services rendered. This amount is the fee earned by Doughton & Hart, PLLC for representing the CDC in the closing process and does not include any other costs associated with closing the loan.
 - (c) Such reimbursement shall be made at the loan closing, prior to the submission of the loan closing package to the SBA.

- (d) The undersigned understands that it may choose its counsel to perform legal services in connection with the closing of the CDC loan. The undersigned further understands that even with its own counsel participating in the CDC closing process, the firm of Doughton & Hart, PLLC must participate in the issuance of loan papers, must review all work of the counsel chosen by the undersigned, must submit the loan closing papers to Small Business Administration (SBA), and must handle negotiations with SBA with respect to compliance with SBA requirements.

This the _____ day of _____, 2009.

Name of Applicant

Signature of Applicant or Authorized
Representative of Applicant

Supplemental Information – Internet-based Resources

North Carolina Small Business & Technology Development Center (www.sbtcdc.org)

The SBTDC is a business development service of The University of North Carolina operated in partnership with the Small Business Administration.

On-line publications include:

- Capital Opportunities for Small Business
- Business Start-up and Resource Guide
- Web Resources
- Conducting an Industry Analysis
- Intellectual Property Guide
- North Carolina International Service Providers Guide
- NC Textile Resource Guide
- e-Business Resource Guide

Small Business Administration (www.sba.gov)

The mission this federal agency is to maintain and strengthen the nation's economy by aiding, counseling, assisting and protecting the interests of small businesses and by helping families and businesses recover from national disasters.

On-line information on:

- Starting your business (basic information and business plans)
- Financing your business (eligibility issues and loan programs)
- Managing your business
- Business opportunities (marketing and contracting)
- Disaster Recovery (planning, recovery and assistance)
- SBA's E-Business Institute (self-study classes)

Service Corps of Retired Executives (SCORE) (www.score.org)

"Counselors to America's Small Business" is a nonprofit association dedicated to entrepreneur education and the formation, growth and success of small business nationwide. SCORE volunteers provide free, confidential face-to-face and email business counseling to America's entrepreneurs.

Supplemental Information – Other Resources

A basic and sometimes overlooked resource is the public library. The **Forsyth County Public Library** business section offers a wide variety of information that can be used to research the feasibility of a business idea. From demographic information, to company profiles, to free use of computers with Internet access, a staff of helpful librarians is available to guide patrons to the resources needed. In addition to business start-up information, the library has a great collection of books on every aspect of operating a business, including finding supply sources, locating sales leads, and legal and tax information. The business section of Forsyth County's main library is located on the second floor at 660 W. Fifth Street; the telephone number is 703.3020 and the website address is <http://www.forsythlibrary.org>.

The **Small Business Center** of Forsyth Technical Community College provides counseling, research and information geared towards starting a new business. Some of the available services include seminars, direct one-on-one assistance, a network of linkages, a resource and information center, computer software classes, and upgrading/retraining for employees, including customized training opportunities. Counseling services are free and confidential, and include assistance with developing business plans and financial projections. Examples of seminars, also presented in a popular "lunch and learn" format, include: How to Start a Business from A-Z; Developing a Business Plan; Obtaining a Loan for Your Small Business; Recordkeeping for Your Small Business; and, Marketing and Selling Your Services. The Small Business Center is located in the Chamber Building at 601 W. Fourth Street; the telephone number is 631.1320 and the website address is <http://www1.forsythtech.edu/otherloc/small-business-center>. *There is a Small Business Center at most of the North Carolina community colleges, so contact your local community college for the closest Small Business Center location.*

The **Small Business and Technology Development Center (SBTDC)** is a business development service of The University of North Carolina system. Its primary focus is management counseling for small to medium-sized businesses. The free and confidential counseling services can address issues related to feasibility assessment, business planning, financing, human resources, marketing, and operations. Assistance is available in developing business plans and financial projections. Since the SBA provides funding support to the SBTDC, its staff is well versed with regard to SBA loan and procurement programs, and prepares financial projections to satisfy SBA requirements. More specialized market development assistance is available in areas such as international trade and exporting, government procurement, and technology development and commercialization. Additionally, the SBTDC offers for-fee educational programs that focus on change management, leadership development, and strategic positioning. The regional SBTDC office is located in Winston Tower at 301 N. Main Street in Winston-Salem; the telephone number is 779.7340 and the website address is www.sbtdc.org.

The **Small Business Administration (SBA)** is the Federal government agency set up to assist small businesses. There are several misconceptions about the SBA. The only direct loans made by SBA are disaster loans. The SBA does not provide grants to start-up or expanding businesses. Its primary mechanism for ensuring that small businesses have access to capital is through loan guarantees. The SBA district office is located in Charlotte; the answer desk telephone number is 800.827.5722 and the website address is www.sba.gov.

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SBA 504 Project (existing business/multi-use property)

Eligible Project Costs:

\$ 500,000	Land
1,200,000	Construction
120,000	Construction Contingency (10%)
0	Machinery & Equipment
<u>180,000</u>	Soft Costs (appraisal, interest, etc.)
\$2,000,000	<i>Total Project Cost</i>

Financing Structure:

\$1,000,000	50%	Participating Lender
800,000	40%	SBA 504
<u>200,000</u>	10%	Equity
\$2,000,000	100%	<i>Total Project Financing</i>

Permanent Financing:

Loan amounts	Eff. Rate (e)	Amort./Term	Monthly (e)	Annual (e)
1 st lien: \$1,000,000	6.00%	15/10	\$ 8,439	\$101,268
2 nd lien: \$820,000	5.50%	20/20	\$ 5,641	\$ 67,692
Total: \$1,820,000			\$14,080	\$168,960

Notes:

1. This is presented for informational purposes and is not an offer of financing (10/06/09)
2. 10% equity in project is allowed due to business being in operation for more than two years and classification of building as multi-use
3. In this example, the participating lender provides \$1,800,000 in construction financing, which is paid down at the end of the construction phase by \$800,000 through the 504 loan to the permanent loan amount of \$1,000,000; *actual rate and terms to be provided by participating lender*
4. SBA charges the lender a one-time lender participation fee that is equal to .50% of the first lien amount; in this example, \$5,000.00 (\$1,000,000 x .50%)
5. 504 loan amount of \$820,000 is based on \$800,000 net proceeds plus 2.15% administrative fees and \$2,500 CDC attorney closing fee (*for CDC/SBA representation*)
6. 504 loan rate is fixed at funding which normally occurs 2 - 3 months after construction is completed; for new loans funding in September 2009, the full-term effective rate was approximately 5.14%

Information on the SBA 504 loan program is available at the following websites:

Organization	Website address
U.S. Small Business Administration	www.sba.gov
National Association of Development Companies	www.nadco.org
Northwest Piedmont Development Corporation	www.nwpcog.org