Preparing Your Business For Recovery

Webinar Content:

SBA Debt Relief
504 and 504 Refi

A program of:

Our Presenter:

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The Certified Development Company / 504 Loan Program

An economic development loan program, jointly provided by participating lenders and Certified Development Companies, offering:

• Fixed asset financing & Refinance of Fixed Assets
• Low down-payment financing as low as 10%
• Long-term, fixed-rates up to 25 years
  • Current rates near 3%! 
CDC’s Located in Wisconsin:

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How will SBA 504 assist Small Businesses in the Pandemic Recovery?

- 6 months of SBA-Made Payments for existing 504 borrowers
- For others, in partnership with financial institutions:
  - Restructure existing Fixed asset debt at **historically unprecedented rates** & improve lender’s Loan to value positions
  - Provide **amazing rate & terms** for those businesses that are expanding while providing their lenders a credit enhancement opportunity
What’s the 504 “Sweet Spot’? 

- Owner-Occupied Real Estate or Equipment
- Projects ≥ $300,000
• Third Party Lender’s (TPL) portion is a conventional loan
• TPL may take additional collateral during Interim
• 504 portion has 100% SBA guaranty
Who Wouldn’t Like 90% Financing?

**Typical Conventional Structure**
$1,000,000 Project

- Third Party Lender $750M (75%)
- Borrower Down Payment $250M (25%)

**Typical 504 Structure**
$1,000,000 Project

- Bank Financing $500M (50%)
- WBD 504 Financing $400M (40%)
- Borrower Down Payment $100M (10%)

$150,000 lower down payment = Improved Cash Position!
Let’s Talk About Borrower Contribution

- As little as 10% down
- Owner’s Personal Cash
- Cash from Business Operations
  - Interim interest
  - Down payments related to eligible project costs
- Proceeds from Seller, Municipal Loan, or TIF
  - Borrowed funds secured by project assets must have the same Term as the 504 debenture
  - Municipal loans with favorable terms may be granted an exception to this “same term” rule
  - If unsecured, no minimum term or percentage of project requirement
- Equity in Real Estate
  - “As Is” appraised value, less existing debt, if owned at least 2 years
Special 504 Loan Structures

Start-up **OR** Special Purpose R/E
50-35-15

Start-up **AND** Special Purpose R/E
Or Existing 504 Special Purpose R/E
50-30-20

Third Party Lender must be at 50% participation in both scenarios
Long-Term, Patient Financing

• 25-Year or 20-Year Debenture (Real Estate):
  – Third Party Lender’s loan must have at least a 10 year maturity
  – Combined real estate & equipment projects (mixed-use) are possible based on concentration of equipment

• 10-Year Debenture (Equipment):
  – Third Party Lender’s loan must have at least a 7 year maturity
  – Equipment project may be financed with a 20 year or a 25 year Debenture based on the equipment’s certified useful life
504 Eligibility
Parameters
Eligible Businesses:

✓ Must be active, 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
  - Purchase of Improve Owner Occupied Commercial Real Estate
  - Purchase Equipment
  - Project Related Eligible Soft Costs
    - Professional Fees
    - Cost of Appraisal & Environmental Reports
    - Interim Interest
      - Refinance w/ Expansion – Up to 50% of expansion costs
      - Permanent Refinance Program – Discussed later

- Ineligible 504 Project Costs
  - Working Capital; Inventory; Other Current Assets
  - “Goodwill”; Other Intangible Assets
Eligibility – Maximum Loan Size & Funding Limits

• **$5 million** maximum loan in **all eligible cases**
  – Represents total exposure available to Borrowers and their Affiliates
  – Includes loan being applied for plus any existing 504 or 7(a) loans

• **$5.5 million per project** for eligible **small manufacturers**
  – NAICS codes beginning with 31, 32, or 33
  – Must create/retain one job per $100,000 in SBA financing, or meet a SBA policy goal

• **$5.5 million per project** for projects (capped at $16.5MM in aggregate exposure)
  – That reduce energy consumption by at least 15%
  – For plant, equipment and process upgrades of these types of projects
  • Renewable energy sources (micro-power)
  • Renewable fuel producers (biodiesel and ethanol)
504 REFINANCE: Restructure Debt on Amazing Terms!
Understanding LTV Requirements

• **Straight Refinance of Qualified Debt – 90% LTV**, based on a current appraisal

• **Refinance of Qualified Debt with Cash Out – 85% LTV**, based on a current appraisal; cash out piece cannot exceed **20%** of the appraised value
Use of Proceeds – Qualified Debt**

- Loan(s) was incurred at least two years prior to date application will be submitted to SBA
- Loan(s) has been current for past 12 months with no payment over 30 days past due
- At least 85% of original use of proceeds being refinanced was used to acquire a 504 eligible asset which will secure the proposed 504 refinance project
- Copy of note(s) being refinanced and corresponding collateral documents must be provided
- Loan being refinanced does not have an existing federal loan guaranty
- Loan being refinanced is not part of an existing 504 project

** All Refi Loans Must include Qualified Debt
Use of Proceeds – Business Expenses

• **Eligible Business Expenses** are essentially operating expenses of an eligible Operating Company:
  – Payoff / pay down an operating LOC – Borrower needs to certify the funds weren’t used for capital expenditures
  – expenses such as salaries, rent, utilities, inventory, etc.
  – credit card debt on card in the name of the business; certify business purpose
  – expenses incurred but not paid prior to the date of SBA application
  – expenses that will come due within 18 months after date of application

• **Ineligible Business Expenses include**
  – buy out of a partner
  – paying off existing loans
  – expand footprint of building
  – purchase additional fixed assets
  – expenses incurred for "upkeep and maintenance" of Project Property, such as new roof, repaving parking lot, flooring, redecorating, etc.
  – business acquisition
Case Studies
#1 – Adaptive Re-Use Project:  
Acquisition with TIF & WEDC Idle Sites Grant

- Long-established wholesaler and custom automotive parts manufacturer
  - Current facility has space constraints, with little to no room for further expansion
  - Looking to purchase and renovate a 60,000 sq ft former retail building
  - New facility would greatly increase revenue opportunities by providing the inventory space needed to sell their products on Amazon
  - Project site located in the TIF

- Preliminary Borrower Financing Request:
  - Real Estate Purchase Price - $3,000,000
  - Construction – Approx. $2,390,000
  - Equipment - $500,000
#1- Adaptive Re-Use Project

- **Project Considerations:**
  - Existing business, multi-purpose property, so minimum required borrower contribution is 10%.
  - Municipality offering TID incentive of approx. $362M to be paid out in annual installments of approx. $40M. To be eligible to use as borrower contribution, the TPL approved a conventional loan and advanced 75% of the total TID, secured with a receivable of the TID proceeds. Principal reductions will be made on annual basis equal to the funds received from the municipality.
  - WEDC provided a grant under its Idle Site Redevelopment Program – Money granted to municipality, which is subsequently granted to the business.
#2 – Ground-Up Construction

- Company provides waste stream and recycling solutions for municipalities, manufacturers, and other industrial companies:
  - Currently lease a 45,000 sq. ft. location
  - Looking to build a new facility to replace the current leased space
  - Similar square footage but will have 22 ft. ceilings vs. the current 12 ft. ceilings, so it would nearly double the warehouse space
  - Strong support from the municipality, site is located in a TIF District

**Preliminary Borrower Financing Request:**

- Acquire Project Land
- Construction – Approx. $1,474,000
#2 – Ground-Up Construction

## 504 Structure:

<table>
<thead>
<tr>
<th>Uses</th>
<th>Amount</th>
<th>Sources</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Land</td>
<td>$105,000</td>
<td>Third Party Lender</td>
<td>$815,000</td>
<td>50.00%</td>
</tr>
<tr>
<td>Construction</td>
<td>$1,474,441</td>
<td>WBD/SBA</td>
<td>$570,500</td>
<td>35.00%</td>
</tr>
<tr>
<td>Construction Contingency</td>
<td>$30,559</td>
<td>Borrower Contribution</td>
<td>$244,500</td>
<td>15.00%</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>$20,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,630,000</td>
<td><strong>Total</strong></td>
<td>$1,630,000</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

### Project Considerations:
- Per the development agreement, City will sell the land for $1 / acre. “As-is” appraised value came in at $105,000 on the project land. Can use towards the required borrower contribution.
- Existing business, multi-purpose real estate, so minimum borrower contribution is 10%. (Since this was a projection-based expansion, the TPL required 15% down)
- Current lease payments were $17M a month vs. pro forma P&I payments of $10M a month
#3 – 504 Refinance with Cash Out

• A long established wood products manufacturer and transportation service provider:
  – Operates three divisions: manufacturing, lumber / sawmill, and transportation
  – Lender contacted CDC about playing a role in the refinance of the manufacturing facility
  – Incumbent bank and borrower were interested in the long-term fixed rate option and cash out availability utilizing the 504 refinance program

• Preliminary Borrower Financing Request:
  – Refinance Existing Mortgage - $1,124,452
  – Current Line of Credit Balance - $2,249,052
#3 – 504 Refinance with Cash Out

<table>
<thead>
<tr>
<th>504 Uses of Funds:</th>
<th>504 Sources of Funds:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Equity</td>
<td>Bank Financing</td>
</tr>
<tr>
<td>$1,155,548</td>
<td>$857,226  29.87%</td>
</tr>
<tr>
<td>Refinance Existing Mortgage</td>
<td>WBD/SBA 504</td>
</tr>
<tr>
<td>$1,124,452</td>
<td>$857,226  29.87%</td>
</tr>
<tr>
<td>Cash Out - Pay down RLOC*</td>
<td>Real Estate Equity</td>
</tr>
<tr>
<td>$574,000</td>
<td>$1,155,548 40.26%</td>
</tr>
<tr>
<td>Soft Costs</td>
<td></td>
</tr>
<tr>
<td>$16,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>$2,870,000</td>
<td>$2,870,000 100.00%</td>
</tr>
</tbody>
</table>

*Capped at 20% of the appraised value

- **Project Considerations:**
  - Max LTV when including Cash Out for Business Expenses is 85%
  - Cash Out is capped at 20% of the appraised value
  - Appraisal on the manufacturing facility came in at $2,870,000
  - Original mortgage debt goes back many years and several lenders ago, making documenting original use of proceeds difficult*

- CDC had the borrower certify that 85% of the original use of proceeds was for fixed asset purposes
Lender Approval

- Loan Amount & WBD’s internal credit scoring determines approval process:
  - Management Approval Process
  - Loan Committee Approval Process

CDC Approval

- Application Submitted via E504
- SBA Turnaround Time normally 4-5 business days
- Can receive approval subject to a clean environmental report & acceptable appraisal (w/ the exception of 504 REFI)

SBA Authorization

3-4 Weeks with a Complete Application Package
• Materials and information largely overlap with what Lender collects for underwriting their loan

• CDC works to gather as much information from the lender as possible to avoid duplicative requests to borrower

• A checklist and all of the relevant forms are available at www.wbd.org/forms

• CDC analysis and SBA application prep begins when application materials are complete
<table>
<thead>
<tr>
<th>Items to Complete Application</th>
<th>Bank Likely to Require</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 WBD 504 Application and Legal Fee Agreement</td>
<td></td>
<td>Simple form</td>
</tr>
<tr>
<td>2 Business Survey Form</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>3 Business Plan</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>4 Owner and Key Management Information</td>
<td>X</td>
<td>Copy of Drivers License</td>
</tr>
<tr>
<td>5 Owner and Key Management Resume</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>6 Personal Finance Statements and Tax Returns</td>
<td>X</td>
<td>SBA requires it be within 90 days</td>
</tr>
<tr>
<td>7 Business Financial Statements and Tax Returns</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>8 IRS Form 4506 T</td>
<td></td>
<td>Just a form to sign</td>
</tr>
<tr>
<td>9 Current Balance Sheet and Income Statement</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>10 Aging Accounts Receivable and Payable Explanations</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>11 Two Years on Income and Expense Projections</td>
<td>X</td>
<td>We need the detailed assumptions</td>
</tr>
<tr>
<td>12 Schedule of Indebtedness</td>
<td>X</td>
<td>Need the global debt picture</td>
</tr>
<tr>
<td>13 Federal Tax Returns of Affiliates</td>
<td>X</td>
<td>Owners with at least 20% ownership</td>
</tr>
<tr>
<td>14 Copy of Offer to Purchase</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>15 Details Listing of Machinery and Equipment</td>
<td>X</td>
<td>Must be detailed and documented</td>
</tr>
<tr>
<td>16 Signed Construction Contract or Bid</td>
<td>X</td>
<td>Signed on letterhead</td>
</tr>
<tr>
<td>17 Franchise Documents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 Jobs Information Summary</td>
<td></td>
<td>Simple form</td>
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