GUIDELINES

FOR

UNITED STATES SMALL BUSINESS ADMINISTRATION

504 LOAN PROGRAM

(These Guidelines are subject to change as they may occur in any updates or amendments to either the SBA SOP 50-10 and 13CFR)

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1. THE PROGRAM

The United States Small Business Administration (SBA) 504 loan program combines the incentives of long-term, low down payment and fixed rate financing for long life fixed assets. SBA offers 10, 20 and 25-year terms for projects that quality for this program, based on the useful life of the asset. Businesses that have been in existence for at least 2 years are required to inject only 10% of the total project cost as a down payment. The lower down payment requirement preserves business cash for working capital. New businesses (less than two years of operations) and/or commercial facilities classified as a "special purpose" building, must contribute an additional 5% for each of these circumstances. Therefore, a maximum down payment requirement (if new and special purpose) of 20% would be required. The Community Development Corporation of Fort Wayne (CDC) is a 501 c 6, non-profit certified development company authorized to administer this program on behalf of the SBA to administer this program throughout the State of Indiana.

2. GENERAL ELIGIBILITY CRITERIA

This program is governed as outlined in SBA Standard Operating Procedures 50 10, 50 55, Title 13, Chapter 1, Part 120 of the Code of Federal Register and this document, as they are amended and updated.

2.01 Applicant Eligibility

A. The small business must be operated for profit (for-profit subsidiaries of non-profits, may be eligible.)

B. Net worth of business may not exceed $15 million. Average after-tax profit for the past two years must be $5 million or less

C. If the property to be financed is to be owned by a separate entity from the business (i.e., a real estate partnership or holding company), the two entities must have similar or common ownership

D. If an existing building is to be purchased, the business must occupy at least 51% of the space. SBA 504 funds may not be used to renovate space solely rented to a tenant. If a building is to be constructed, the business must occupy at least 60 % of the space initially and at least 80% of the total square footage long term

E. Job Creation is a requirement to qualify for this program. One job must be created within two years of project completion for every $75,000 of SBA funds borrowed or if the company is a manufacturer, the requirement is one job for every $120,000 (certain exemptions may apply), or meet one of 14 community development or public policy goals. This data will be collected as of the 2-year anniversary of SBA funding.

F. Limited or special purpose buildings (including but not limited to; car wash, golf course, movie theatre, wineries, railroads, hotels) or businesses less than 2 years old will require additional 5% equity from the borrower (up to a maximum of 20%, if both a new business and limited or single purpose building)

G. Owners must be US Citizens or have permanent resident status
H. Business must have its main operations in the U.S.
I. If a franchised business, it must be approved by SBA
J. CDC must verify that favorable credit is not available elsewhere
K. **Ineligible borrowers** include but are not limited to; most not-for-profit businesses, passive investment and real estate companies, financial and religious institutions, sexually explicit businesses, and unregulated media firms

2.02 Geographic Eligibility

A. State of Indiana

2.03 Eligible Uses of Loan Proceeds

A. Land and/or building acquisition and improvements
B. Construction of a new building
C. Contingency fund equal to 10% of construction costs
D. Soft costs, such as; survey, title insurance, engineering if project related
E. Purchase machinery and equipment with useful life greater than 10 years
F. Repayment of interim financing
G. Project cost expenditures prior to SBA application as long as they occur within the allowed time frame
H. Debt refinance that meets certain SBA criteria

2.04 Ineligible Uses of Loan Proceeds

A. Costs not associated with project
B. Working capital
C. Commitment, loan origination or application fees and discount points
D. Business incorporation expenses
E. Inventory

3. PROCEDURE

3.01 Application to CDC – All required documentation plus a check for 1% of the SBA loan amount up to a maximum of $2,500 along with a conditional approval letter from your financial institution, approving financing conditioned upon the participation of the SBA. If approved by CDC, applications will then be sent to the SBA's central processing center for final approval.

3.02 Application to SBA – If all program conditions are met and the CDC Board approves the project, it will then be submitted to SBA for final approval. This process may take several days to weeks, potentially longer, based on current and extenuating circumstances.

3.03 Interim Financing - Must be arranged with a lender as CDC/SBA loan is not funded until the project is complete.

3.04 504 Loan Closing - Once the project has been completed with all SBA conditions met, closing on the CDC/SBA loan occurs. Recorded closing documents are then forwarded to an SBA attorney for final review.

3.05 Debenture Sale – According to a previously established federal schedule, the CDC's loan is combined with other like-term CDC loans into a debenture pool and is sold to private investors. The proceeds from the debenture sale are forwarded to the interim lender to pay-off the portion of their loan that will become the CDC/SBA loan. The SBA guarantees repayment of the debenture to the private investor pool, **not the bank**, in the event the small business fails to repay the loan. The interest rate is determined when the debenture is sold. The rate remains fixed for the term of the loan.

3.06 Monthly Payments - Monthly payments are drafted via an automated clearing house (ACH) debit from the business owners bank account on the 1st of each month. This is handled by Wells Fargo Corporate Trust Services (Wells), the central servicing agent that the SBA has contracted with for this service. Wells then provides disbursement, collection, and accounting services for each loan. All communication, whether a question or concern regarding the SBA 504 loan payments, must be addressed and handled through the CDC office. Neither the SBA nor Wells will handle any inquiries not directed through the CDC.

4. CDC APPLICATION FEE

The Community Development Corporation of Fort Wayne charges an application processing fee of 1% of SBA debenture amount up to a maximum of $2,500. If the loan is not approved, this amount is returned (without interest). If the loan is approved and then does not close, the CDC is reimbursed for its expenses and the borrower is refunded the rest. If a loan is funded, the entire initial deposit amount collected, will be returned in full to the borrower upon disbursement of the SBA504 loan.

5. MAXIMUM/MINIMUM DEBENTURE

The SBA 504 debenture can finance up to 40% of an eligible project cost. The minimum debenture is $25,000 and the maximum debenture is $5,500,000.

6. SAMPLE PROJECT

1. Use of Proceeds

▪ Purchase Building	$ 780,000
▪ Expansion and Renovation	200,000
▪ Contingencies (up to10% of construction cost)	20,000

$1,000,000

2. Financing Package

▪ Bank (50%) - Conventional bank rate and term; Bank takes first mortgage.	$ 500,000
▪ CDC Debenture (40%) - Loaned at fixed rate 10, 20 or 25 year term; SBA takes second mortgage.	400,000*
▪ Local Injection (10%) - Provided by applicant (start-up/special purpose bldg. requires higher%)	100,000
	$1,000,000

*Balance that will be paid to bank for interim financing. Actual debenture will include certain fees paid to SBA for a loan guarantee, CDC for servicing the loan for its life term, Wells Fargo Trust team for the packaging and sale of the debenture and the monthly collection of payments and their corresponding disbursements, CDC attorney closing costs.

7. CLOSING COSTS

Borrower is responsible for payment of closing costs including; recording fees, title insurance (if not already purchased for interim loan), surveys, and their own attorney legal fees.

8. PREPAYMENT

The borrower may prepay the loan in full at anytime. No partial prepayments are allowed so any prepayments must be scheduled with the CDC. If the loan is prepaid during the first half of the term of the loan, a premium will be charged to the borrower. The premium will be assessed at a declining percentage of the debenture interest rate. A schedule of the exact percentage and dollar amount of the penalty is provided to each borrower after the debenture sale with the amortization schedule and final Note.

9. DEBENTURE INTEREST RATES

Once per month, there is a scheduled sale of the pool of SBA loans called a debenture. The business owner's rate is established each month on the sale date. Every month the 20 and 25-year term 504 loans are sold and the 10 year loans are sold every other month. The interest rate then remains fixed for the entire term of the loan. Interest rates on 504 debentures are priced with the ongoing CDC, SBA and CSA fees added; the borrower's interest rate is estimated to be approximately 2.25% over long-term Treasury rates.

10. ADDITIONAL TERMS AND CONDITIONS

10.01 Personal Guarantees- All persons/entities with at least 20% ownership of the business is always required. Other guarantees may be required, depending upon the circumstances of the loan. If the loan is made to the owners (i.e. alter-ego) of the business, a corporate guarantee will be required. These guarantees are typically unsecured but may be secured if the collateral liquidation value is severely deficient

10.02 Insufficient Loan Proceeds- If available loan funds from the bank and SBA are not sufficient to pay all project costs (e.g., due to cost overruns on construction), it is the responsibility of the business or its owners, to use their own funds to complete the project according to plans

10.03 Project Assets Already Owned- Where a building is to be constructed or renovated using a 504 loan, property already owned by the applicant may be considered as the applicant's injection into the project. If the value of the property (purchase price) is greater than 10% of the cost of the project, which is the minimum equity injection, the SBA loan will be reduced accordingly

10.04 Federal Regulations- Borrower agrees that to the best of their ability the will not knowingly violate any federal regulations including but not limited to; Historic Preservation, compliance with Federal Americans with Disabilities Act (ADA), carry flood insurance in project is located within a 100 year flood plan, adhere to the requirements of the Civil Rights Act of 1964

11. PERMANENT PROJECT REFINANCE PROVISIONS

11.01 Eligibility- Loans being reviewed as part of a 504-loan program refinance option must be made to an existing business entity that has been conventionally financed with qualified debt. Qualified debt means:

a. 85% or more of the proceeds which were used to acquire the Eligible Fixed Asset as defined in 13 CFR 120.882 (g) (15)

b. the debt was incurred not less than 2 years prior

c. the proceeds was for the benefit of the small business seeking refinancing

d. secured by Eligible Fixed Assets for at least two years

e. the Borrower has been current on all payments due for not less than 1 year preceding the date of application (not more than 30 days past due)

f. cannot currently be subject to a federal guaranty

g. is not a current Third-Party Loan which is part of an existing 504 funded project

h. may consist of two or more loans as long as each satisfies the qualified debt requirements

11.02 Eligible Fixed Assets- Long-term fixed assets, such as land, buildings, machinery, and equipment acquired, constructed or improved by a small business for its own use machinery, and equipment, acquired, constructed or improved by a small business for its business operations

11.03 Refinancing Project- means the fair market value of the Eligible Fixed Assets securing the Qualified Debt and any other fixed assets acceptable to SBA

(additional assets may be added to the project to comply with the 90% Loan-to-Value Limitation)

11.04 Business ownership- The CDC must verify that ownership in the company has not changed within the most recent two years

11.05 Eligible Business Expenses- The following limitations apply:

a. Other Secured Debt means debt that has been secured for at least 2 years prior to the date of application by the Eligible Fixed Assets

b. Business Operating Expenses means business expenses other than Qualified Debt or Other Secured Debt including salaries, rent, utilities, inventory or other obligations of the business that were incurred but not paid prior to the date of application or will become due for payment within 18 months after the date of application (these items must be itemized in detail)

11.06 Loan-to-Value Limitations- For projects that refinance only Qualified Debt and Other Secured Debt, the maximum loan to value of the refinancing project allowed is 90%. For projects that also include Business Operating Expenses, a maximum 75% loan to value of the refinancing project will apply and the business operating expenses portions of the project many not exceed 25% of the value of Eligible Fixed Assets securing the qualified debt

11.07 Fees- Additional fees may be required for access to credit under the Refinance authorization as set forth in CFR 13 120.971(d)(2). Please ask CDC personnel for any expenses that may be in effect at the time of loan application

11.08 Same Institution Debt- When the loan is being refinanced as defined in 13 CFR 120.882(g)(15) the Third Party Lender may modify its existing loan documents instead of requiring the borrower to execute and record new documents. All modified documents must meet SBA's regulatory requirements for a Third-Party Lender as defined in 13 CFR 120.920 and 120.921