

Structuring Examples For The SBA 504 Loan Program

Mike Vanchiere, Sr. VP and Sr. Loan Officer
Mtn West Small Business Finance
(801) 655-4961 office
(801) 372-8921 cell

mvanchiere@mwsbf.com

Special Use / Single Purpose Structure or “New” Business

• Purchase of Land and Building:	\$8,000,000
• Professional Fees:	\$ 8,000
• Other Costs:	\$ 92,000
• Total Project Costs:	\$8,100,000
• Third Party Lender:	\$4,050,000 (50%)
• CDC	\$2,835,000 (35%)
• Borrower:	\$1,215,000 (15%)

Special Use/Single Purpose and “New” Business

• Purchase of Land and Building:	\$8,000,000
• Professional Fees:	\$ 8,000
• Other Costs:	\$ 92,000
• Total Project Costs:	\$8,100,000
• Third Party Lender:	\$4,050,000 (50%)
• CDC	\$2,430,000 (30%)
• Borrower:	\$1,620,000 (20%)

Special Use/Single Purpose – “New” Business

- Only when the subject project is a special use/single purpose and/or a “new” business does the Third Party Lender have to be at least 50%.
- Anything over 15% or 20% down must come off the CDC’s share.

Alternate Structures for the 504 Project

- Not special purpose or “new”
- \$1,000,000 total project cost
- 15% down
- Third Party Lender - \$450,000 (45%)
- CDC - \$400,000 (40%)
- Borrower - \$150,000 (15%)

Alternate Structure Continued

- \$1,000,000 total project cost – regular project
- 20% down
- Third Party Lender - \$400,000 (40%)
- CDC - \$400,000 (40%)
- Borrower - \$200,000 (20%)

Alternate Structure Continued

- \$2,000,000 total project cost

Third Party Lender - \$750,000 (37.5%)

CDC - \$750,000 (37.5%)

Borrower - \$500,000 (25%)

Remember – the CDC can be the same as the Third Party Lender, but not more than.

Equity Injection from Borrower

- What might be the reason a borrower would inject more than 10% down payment when not a special purpose property?
- 1. Collateral shortfall
- 2. 1031 Exchange
- 3. Borrower wants to put in more
- 4. May have Seller carry back involved
- 5. Have more equity than 10% in existing land and building

504 Loans – Appraisal Update

Appraisal threshold increased from \$250,000 to \$500,000.

However, SLPC may request appraisal for projects under \$500,000 when deemed appropriate for credit underwriting.

SBA's loan-to-value calculation is simple.

Total Project Cost:	\$3,000,000
---------------------	-------------

Total Project Cost x .95	\$2,850,000
--------------------------	-------------

Appraised value of Project Assets must be at least \$2,850,000

Miscellaneous Information

- 504 can do partner buyouts
- Can do Phase 2 or Phase 3 projects
- For existing building(s), Operating Company must occupy 51%; can lease out up to 49% in perpetuity
- For new buildings, Operating Company must initially occupy 60%, begin to occupy a portion of the remaining space within 3 years and occupy 80% of total space within 10 years.
- Eligible Passive Company (EPC) or real estate holding entity can only own project property; Master lease between EPC and Operating Company.