

nedco

small business lender

Financing with SBA 504
Loans

504 LOAN PROGRAM BASICS

- Public/Private financing program for commercial lending
- Provide access to public capital markets for small businesses
- Financing land, building, and/or equipment, including refinances
- Low Fixed Interest Rates on 10, 20, or 25 year terms
- Loans from \$50k up to \$5 Million or \$5.5 for manufacturing or “green” incentives

nedco'S FUNCTION IN 504

- nedco is responsible for marketing the 504 Loan Program in the State of Nebraska.
- nedco is responsible for the underwriting and assisting potential Borrower's with SBA forms in order to submit a completed loan application.
- nedco is responsible for closing the Borrower's 504 Loan.
- nedco is responsible for servicing the Borrower's 504 Loan.

504 LOAN PROGRAM GOALS

- Create economic development opportunity in a community
- Provide affordable long term financing for business expansion
- Give a financial incentive to encourage private lender participation
- Give financial incentive to stimulate business capital investment

WHY BORROWERS CHOOSE 504

- Peace of Mind – No short term balloon payments with long amortization
- Maximizes Cash Flow
- Low down payment preserves capital, typically as low as 10%
- Competitive financing with low fixed interest rates
- Rate of private sector financing more favorable with low LTV

WHY LENDERS CHOOSE 504

- **First lien position**
- **Excellent loan-to-value**, minimizing risk
- The bank can set their own rate and fees
- Participate in loans that would otherwise exceed legal lending limits
- Less SBA paperwork than 7A, no loss of guaranty or annual service fees
- Helps maintain borrower's lending limit preserving ability to loan for working capital or inventory



ELIGIBILITY FOR 504 LOANS – BASIC

- Must be organized “for profit”
- Must be located within the US
- Demonstrate need for desired financing – credit not available elsewhere
- Business must be small under the program size standards
- Meet an economic development objective of the program
 - *Jobs (1 job created or retained for every \$75,000 in 504 funding)*
 - *Community impact (Redevelopment and Rural Areas)*
 - *Public policy goals (51% or more ownership by women, veterans and minorities)*

ELIGIBILITY CONTINUED

- 1.15 DSCR is the SBA minimum, nedco prefers a 1.25 DSCR minimum
- Two Years projections with 1 year monthly cash flow on startups
- Projections need to include supporting data
- Any additional financing needs to match the 504 repayment term
- Existing real estate must be 51% owner occupied, and 60-80% occupied on new construction.
- Anyone owning 20% or more of the real estate holding company or operating company needs to guaranty the loan.

ELIGIBLE BORROWERS – SIZE STANDARDS

- Net worth not to exceed \$15 Million – including affiliates
- Net profit not to exceed \$5 Million (Avg. during previous two years)
- 504 Loans can use alternative 7A size standards based on a Borrower's NAICS code (Avg. Receipts or Employees)

EXAMPLE 1 – 50/40/10

504 PROJECT/LOAN STRUCTURE

Acquisition	\$800,000	TPL (Bank)	\$500,000
Renovations	\$100,000	**nedco	\$400,000
Equipment	\$50,000	*Equity	\$100,000
Soft Costs/Conting.	\$50,000		
TOTAL	\$1,000,000	TOTAL	\$1,000,000

**Additional 5% injection for special purpose building and additional 5% injection for start-ups*

***Customer can finance NEDCO fees with NEDCO loan amount.*

START-UPS & SPECIAL USE PROPERTIES

- Businesses with less than 2 years of operations are considered start-ups
- Business expansions may not be considered a start-up with the same ownership (Multiple Hotels, Restaurants, C-Stores)
- The sale of an existing business to a new owner without ownership experience is considered a start-up
- Special Use Properties are defined by the SBA in SOP 50 10 6
- 27 Properties are considered special use (e.g. *Gas Stations, Hotels, Car Washes, Nursing Homes*)



EXAMPLE 2 – 50/35/15

504 PROJECT/LOAN STRUCTURE

Acquisition	\$800,000	TPL (Bank)	\$500,000
Renovations	\$100,000	**nedco	\$350,000
Equipment	\$50,000	*Equity	\$150,000
Soft Costs	\$50,000		
Inventory	\$25,000		
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TOTAL	\$1,025,000	TOTAL	\$1,000,000
Inelig. Costs	-\$25,000		
Total Project	\$1,000,000		

**15% equity assumes project is either Special Purpose or Start-Up*

***Customer can finance NEDCO fees with NEDCO loan amount.*

EXAMPLE 3 – 50/30/20 504 PROJECT/LOAN STRUCTURE

Acquisition	\$800,000	TPL (Bank)	\$500,000
Renovations	\$100,000	** nedco	\$300,000
Equipment	\$50,000	*Equity	\$200,000
Soft Costs	\$50,000		
Inventory	\$25,000		
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TOTAL	\$1,025,000	TOTAL	\$1,000,000
Inelig. Costs	-\$25,000		
Total Project	\$1,000,000		

* 20% equity assumes Project is both Special Purpose and Start-Up

**Customer can finance NEDCO fees with NEDCO loan amount.

INELIGIBLE USE OF FUNDS

- Working Capital
- Inventory
- Franchise Fees
- Rolling Stock
- Goodwill/Blue Sky
- Real Estate Taxes
- Third Party Lender Fee
- Short Term Equipment
- Excess land*



EQUITY SOURCES

- TIF – Considered cash by the SBA
- Personal Loan – Must be evidenced on PFS
- Seller Carry-back – 3rd Lien Position and cannot amortize faster than 504 loan
- Business Cash – Must be evidenced on interim Balance Sheet
- Personal Cash – Must be evidenced on PFS
- Other Third Party Sources – DED, CDBG, LB840



504 FEES

- One-time upfront fees are automatically financed into the 504 loan when it funds.
- These fees are about 2.6% of the 504 loan amount
- Ongoing fees are already built into the published interest rate
- The bank is charged a 0.5% fee based on their permanent (50%) loan amount
- There is a prepayment premium if the 504 loan is repaid within the first 10 years on a 20 year note, and 5 years on a 10 year note.

LOAN FORMS

[HOME](#) [MINI APP](#) [504](#) [LENDERS](#) [BORROWERS](#) [RESOURCES](#) [CONTACT US](#)

LOAN FORMS

FIND WHICHEVER APPLICATIONS OR FORMS FIT YOUR NEEDS AND SEND THEM BACK TO US.
IF YOU'RE IN A RUSH, TRY OUR NIFTY MINI APPLICATION INSTEAD!

APPLICATIONS

- NEDCO Application Guide — [Download](#)
- NEDCO Application — [Download](#)
- 912 Form — [Download](#)
- Personal Financial Statement — [Download](#)
- Environmental Questionnaire — [Download](#)
- Sample Bank Letter — [Download](#)
- SBA Environmental Reliance Letter — [Download](#)

PROCESSING

- NEDCO Contact Questionnaire — [Download](#)
- Title Requirements — [Download](#)
- Sample Lease — [Download](#)
- Equal Employment Opportunity — [Download](#)

CLOSING/SERVICING

- Prepay Explanation — [Download](#)
- ACH Form — [Download](#)
- Project Cost Information Sheet — [Download](#)
- EEOC Poster — [Download](#)
- Borrower Payout Sheet — [Download](#)
- Assignment of Life Insurance Form — [Download](#)
- Timeline/Roadmap — [Download](#)
- CSA Wire/Mail Instructions — [Download](#)

COMPLETING A 504 LOAN APPLICATION

NEDCO 504 Loan Application Guide

STEP ONE - Submitting an Application

This first step in the application process is the most important as a thorough application can lead to a faster approval process. The following checklist provides a brief overview of commonly required application documents. Each loan is different and additional documentation may be required, however this list does provide for the majority of items necessary to complete the application package. Depending on the availability of all required documents, this step can take as little as two days but is usually closer to one week.

- ___ Application - visit nedcoloans.org to print our application or use our online application tool
- ___ SBA Form 912 (attached to application)
- ___ Personal Financial Statement (within 60 days)
- ___ Personal Questionnaire (attached to application)
- ___ Bank's write-up/credit analysis
- ___ Two years business returns
- ___ One year personal returns
- ___ Current Financial Statements (within 60 days)
- ___ Two years projections (if applicable)
- ___ Two years tax returns for any affiliate businesses (if applicable)
- ___ Cost Documentation (Bids, Invoices, purchase agreements, etc.)
- ___ Franchise Information (if applicable)

COMPLETING A 504 LOAN APPLICATION

STEP TWO – Loan Committee Approval

After the complete loan package is assembled, the loan is ready to be reviewed by NEDCO's internal loan committee. Review of the loan is typically three days but can take up to a week. Upon approval by loan committee, the following documents will be prepared and sent out for signature:

- ____ Signed Assistance Agreement
- ____ IRS Form 4506T
- ____ Environmental Questionnaire
- ____ Bank Letter (see sample at nedcoloans.org)
- ____ SBA Form 1244
- ____ Application Deposit

COMPLETING A 504 LOAN APPLICATION

STEP THREE – SBA Approval

Upon receipt of the loan committee approval documents, the loan package will be submitted to the SBA for their review. This review typically takes one week. During this review the SBA may make additional requests for information outside of the required documentation before issuing a final decision. Upon approval, the SBA will issue an “Authorization for Debenture Guaranty” which allows the Bank to fund the purchase or construction loan.

COMPLETING A 504 LOAN APPLICATION

- Other Documentation that May be Submitted at Time of Application:
 - Franchise Agreement (if applicable)
 - Franchise Addendum – SBA Form 2462 (if applicable)
 - RSRA/Phase I or other Environmental Reports
 - Appraisal Report
 - Lender’s Credit Memo
 - Refinance Documents (if applicable)
 - INS Verification Form G-845 (if applicable)
 - Documentation of Equity Source (e.g. seller carry-back note, TIF docs, DED Note, etc.)
 - Seller’s Tax Returns

CONTACT nedco

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Thank You!