



Summary & Guidelines 504 LOAN PROGRAM

Program.

The Mentor Economic Assistance Corporation is a Certified Development Company (CDC), which is certified and regulated by the U.S. Small Business Administration (SBA) to administer the SBA 504 Loan

MEACO is committed to enhancing the economic development of the City of Mentor through helping small business owners structure financing for fixed asset purchases (land, building, machinery and equipment) under the SBA 504 loan program. The primary benefits of the program are longer loan terms, fixed interest rates and lower down payment requirements. A typical 90% financing structure is 50%, 40%, 10% participation split. For example, if the total project cost is \$500,000 then:

Loan Structure

50%	Bank Loan	\$250,000
40%	MEACO (SBA 504)	\$200,000
10%	Equity	<u>\$ 50,000</u>
		\$500,000

Key Advantages

- Lower Owner Equity (10%)
- Fixed Rates
- 10 to 20 Year Terms
- Below Market Rates

MEACO can finance up to 40% of the total project cost not to exceed \$1.5 million or in certain instances up to \$2.0 million if the project meets defined “public policy goals” or \$4.0 million for specific “small manufacturers”.

USE OF FUNDS

MEACO may assist a small business concern (SBC) to obtain long-term, fixed rate financing for the purchase of land and/or existing building, new construction, modernization, or conversion of its facility and/or purchase of new machinery or equipment. SBA 504 funds **may not** be used for *working capital* or *debt refinancing*.

If the financing involves real estate purchase, the building must be at least 51% owner occupied. If the financing involves new building construction it must be at least 67% owner occupied.

LOAN TERMS

SBA 504 Program

- 20-year term/ amortization for 20 year SBA term loans
- 10-year term/ amortization for 10 year SBA term loans

Participating Lender

- Minimum 10-year term/ amortization for 20 year SBA loans

- Minimum 7-year term/ amortization for 10 year SBA loans

INTEREST RATES

SBA 504 Program

- Funds are realized from the sale of bonds on the secondary market. These bonds are called debentures, which are amortized securities, guaranteed by the faith and credit of the U.S. Government
- The debentures are priced at approximately % above the corresponding 10-year and 5-year (for 20 and 10 year debentures) U.S. Treasury Market Rates. SBA debenture sales occur once a month. Once the debenture interest rate is determined the rate is **fixed for the term of the loan.**

Participating Lender

- Interest rates are negotiated between the small business owner and bank loan officer.

SBA 504 FEES

One time processing fee for SBA 504 participation is 2.75% of the SBA 504 Loan amount. This fee is rolled into your debenture and financed for the loan term. This processing fee is actually a combination of fees paid to the following entities that are involved in the application, processing, rate negotiation and sale of the debenture.

Processing Fee (CDC)	1.5% of the net debenture proceeds is paid to MEACO for loan processing;
SBA Guarantee Fee	<u> </u> of 1% of the net debenture proceeds is paid to the SBA 504 Loan Program Reserve Fund for potential loss in the program;
Funding Fee	<u> </u> of 1% of the net debenture proceeds to cover costs associated with the debenture sale including Offering Circulars, and other documents related to the sale;
Underwriting Fee	<u> </u> of 1% of the net debenture proceeds plus the other state fees as listed above, is paid to the underwriter to pool the bonds and negotiated rates;
Closing & Legal	Flat fee of \$2,250.

Fee Structure Example:

504 Loan Amount:	<u>500,000</u>
MEACO Processing Fee (.015)	7,500
SBA Guarantee Fee (.005)	2,500
Funding Fee (.0025)	1,250
MEACO Closing & Legal Costs	<u>\$2,250</u>
Total SBA/MEACO Fees	13,500
Underwriting Fee (.005)	2,568
Residual to Small Business Owner	<u>932</u>
TOTAL DEBENTURE AMOUNT:	517,000

These fees are rolled into the debenture amount and paid out at the SBA funding date. The residual amount will be refunded to the small business owner after the debenture sale. This amount is determined based on necessary rounding.

The SBA requires that a Mortgage Title Insurance Policy be issued in their behalf if real estate is taken as collateral. The fee for title insurance is the only out of pocket expense

billed directly to the small business owner and is billed at the closing of the SBA Loan. The SBA also requires that the small business owner receive an opinion letter from their legal counsel regarding the organization entering into the SBA 504 loan. These costs are also the responsibility of the small business owner.

SERVICING FEE

The monthly payment on the debenture portion of the loan includes principal and interest and the three servicing fees:

- 018/1000 of 1% (.018) per annum on the outstanding principal balance is paid to the SBA as an ongoing guaranty fee for the loan term
- 5/8 of 1% (.625) per annum on the outstanding principal balance is paid to the Mentor Economic Assistance Corporation for servicing the loan to maturity
- 1/10 of 1% (0.001) per annum on the outstanding principal balance is paid to the Central Servicing Agent, Colson Services, NY, NY for the collection and processing of loan payments to maturity

These fees are included into the rate calculation for monthly payments and are amortized for the life of the loan. These ongoing servicing fees combined with the spread over the treasury rate determine the effective interest rate every month.

BANK FEE (Underwriting Fee)

One time _ of 1% SBA Processing Fee on the participating lender's first mortgage loan amount is to be paid at the SBA closing. Any other bank fees are negotiated between the small business owner and the bank loan officer.

PREPAYMENT PENALTY

There is a prepayment penalty for the first half of the SBA 504 loan term on all SBA 504 Debentures. The prepayment penalty declines annually based on the debenture principal balance times the debenture interest rate declining evenly over the first half of the loan term. After year 10 of a 20-year loan and after year 5 of a 10-year loan the prepayment premium calculation does not apply.

APPROVAL & CLOSING PROCESS

MEACO will review, underwrite and prepare the SBA 504 loan application. The MEACO Loan Review Committee meets as needed to review loan proposals and make a recommendation for approval by SBA.

After the MEACO Loan Review Committee reviews a loan application, the application is to be signed by the small business owner and then submitted to the SBA for final review. If the SBA concurs with the approval, the SBA issues an Authorization and Debenture Guaranty document.

The participating bank will provide an interim loan for the total financing (90%); the SBA is a take-out lender after project completion.

MEACO coordinates the SBA 504 loan closing. We request copies of all related interim bank closing documents, documentation from the small business owner evidencing the equity injection, appraisals, EPA Reports (if required), evidence of proper insurance, payment of all taxes, and any other related closing information that may apply to a particular project.

SBA TERMS & CLOSING CONDITIONS

The SBA Authorization will include the following terms and conditions as well as other conditions that may apply:

- Filed and recorded second mortgage on subject real estate in favor of the SBA
- Mortgage title insurance policy
- Security interest in machinery and equipment
- Personal guaranty of all 20%+ owners of the business & real estate owners
- Collateral Assignment of Life Insurance on key principals assigned to the SBA
- Adequate fire, hazard, liability insurance naming SBA as co-insured
- Standby agreement on any officer / stockholders loans
- Opinion Letter from the small business owner's legal counsel on the ability to enter into the loan as agreed
- Customer will have 2 loan payments, on to their first mortgage lender and one for their SBA 504 loan made from an Automatic Debit from the account designated by the customer and serviced by MEACO.

LOAN SERVICING REQUIREMENTS

After the SBA 504 loan is closed, the business will be required to provide MEACO annually with business financial statements, updated employment information, insurance certificates and other such information that may be required to monitor the loan for SBA compliance.

BEST EFFORT & HOLD HARMLESS

It is understood that while MEACO agrees to use its best efforts in assisting the SBC to obtain financing, MEACO does not guarantee in any manner that it shall obtain such financing. The SBC agrees to hold MEACO harmless from any and all loss, which may arise in connection with the SBC's inability to obtain such financing from MEACO.

EQUAL OPPORTUNITY LENDER

MEACO is an equal opportunity lender and does not discriminate on the grounds of race, color, religion, sex or national origin. Borrowers should report violations to the U.S. Small Business Administration.

PRESS RELEASE & NEWS STORIES

The small business owner may be requested to participate in a press release or news article on the SBA 504 loan program, which may be published in any local business news publication or the newspaper.

ELIGIBLE BUSINESSES

A business must meet the following guidelines to apply for a SBA 504 Loan with MEACO:

- The business must be a for profit corporation, partnership, limited liability company or organized as a sole-proprietor
- The net worth of the business may not be in excess of \$7.5 million, and its net profit after taxes must have averaged less than \$2 million for the last two years
- If the business is less than two years old, the equity injection requirement will be increased to 15% of the total project cost

- If financing towards a single purpose building purchase or new construction of a single purpose facility, the equity injection requirements will be increased to 15% of the total project cost
- If the business is less than two years old and purchasing or construction a single purpose building, the equity injection requirement will be increased to 20% of the total project cost.
- The business owner must have intentions of creating new jobs due to the project expansion. The SBA sets a guideline of one new job to be created for each \$50,000 of SBA 504 debenture proceeds. Job retention may also be considered.

PRELIMINARY INFORMATION FOR MEACO LOAN

To begin the evaluation and application process with MEACO, the following information should be provided as early in the process as possible.

- ___ History and description of the business.
- ___ Statement detailing the exact uses of the loan proceeds.
- ___ Balance sheet and a current operating statement (not older than 90 days), signed and dated.
- ___ Balance and Profit/Loss statement for the previous three years, signed and dated.
- ___ Pro forma balance sheet and projected operating statement for two (2) years.
- ___ Financial statement and corporate income tax returns for the last three (3) years.
- ___ Monthly cash flow analysis for the next twelve (12) months for three (3) months beyond the breakeven point.
- ___ Resumes of the principals involved in day-to-day management.
- ___ Schedule which contains the original date and amount, present balance owed, interest rate, monthly payment, maturity and security for each loan or debt that your business currently has outstanding.
- ___ Schedule of debt financing planned for the next year beginning after the date of the current financial statements. The terms and conditions specified in the above item should be identified.
- ___ Any copies of existing or proposed lease or purchase agreement or other financing arrangements.
- ___ Preliminary plans and specifications and estimation of cost covering new construction and/or machinery and equipment.
- ___ Appraisal of the property.
- ___ Bank’s letter stating the terms and conditions of its participation.
- ___ Your federal employee identification number and SIC code.

- _____ SBA Form 912 (Personal History Statement) on all officers and/or directors (regardless of ownership) and all owners of 20 percent or more of the Small Business Concern (SBC) affiliated stock. *
- _____ Current personal financial statement (SBA Form 413) for each proprietor, partner and each stockholder with 20 percent or more ownership of the SBC. *
- _____ Resolution from the Board of Directors (SBA Form 160) if a Corporation, authorizing the SBC to borrow and the Corporation's Articles of Incorporation. If a partnership is involved, provide a Partnership Agreement and Certificate as to Partners (SBA Form 160A). *
- _____ Privacy Act Notice (SBA Form 1261). *
- _____ Names of affiliates and/or subsidiary firms. Last fiscal year and financial statements for the listed firms. **
- _____ If your business is a franchise, include a copy of the Franchise Agreement and the Franchiser's FTC Disclosure Statement. **
- _____ Schedule of any previous government financing by any principal or affiliate (including SBA). Indicate name of agency, the original amount, date of the request, approved or declined, the outstanding balance and whether it is current, delinquent or paid in full. **

*CDC will provide SBA forms

** If applicable



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