

# NEDCO FALL 2014 TRAINING SERIES

*Welcome!*

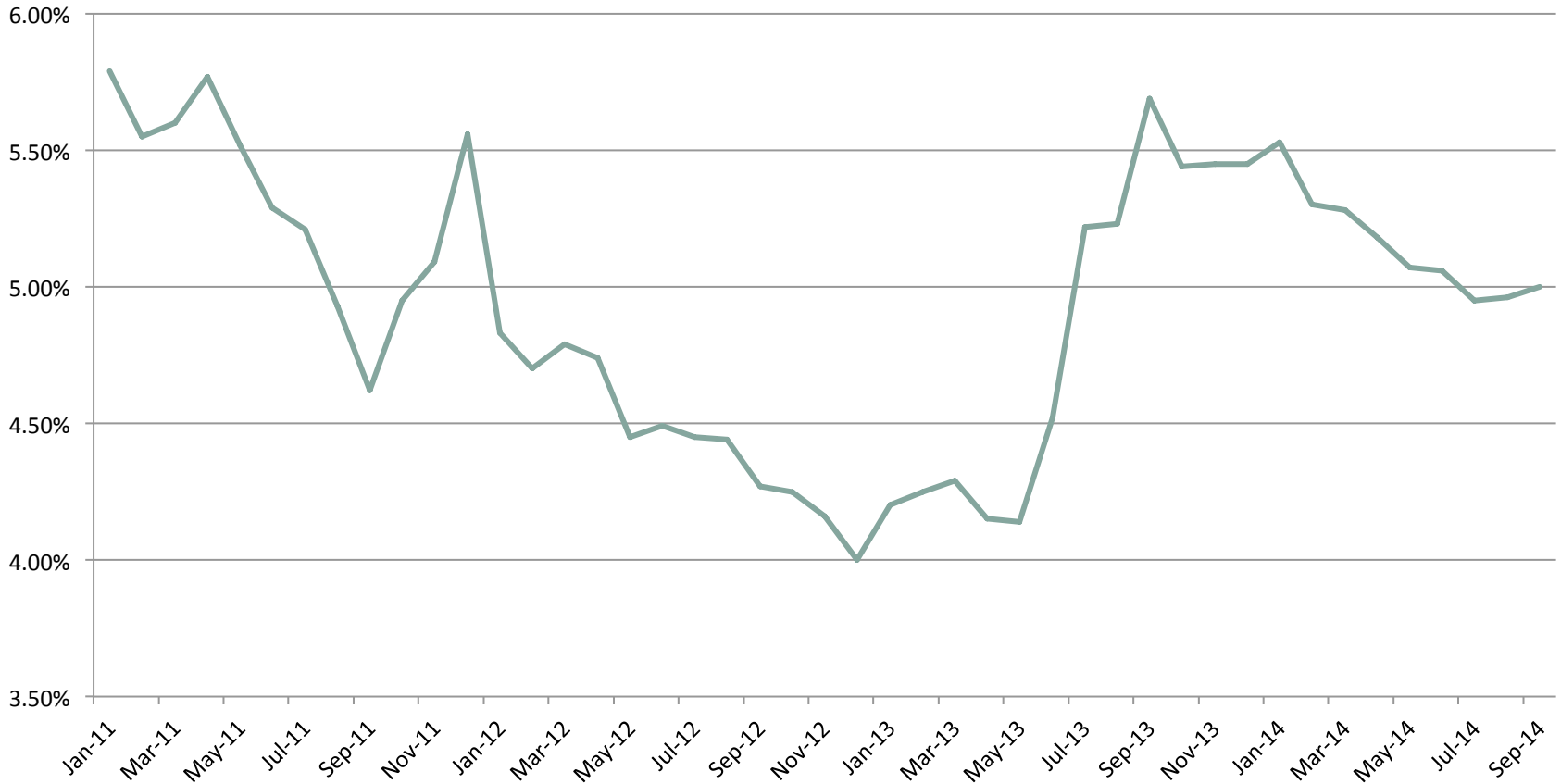
# NEDCO

- Established in 1987
- Licensed to administer the SBA 504 Loans
- Oldest, Largest, Most Experienced, and Active CDC in the State of Nebraska
- 2010 Large CDC of the Year
- Website: [www.NedcoLoans.org](http://www.NedcoLoans.org)
- Recent Projects: [www.NedcoLoans.org/category/success-stories](http://www.NedcoLoans.org/category/success-stories)

# SBA FINAL RULE CHANGES

- Elimination of the 9 month rule for eligible project costs
- Elimination of the personal liquid asset resources test
- Revised 504 Loan Program collateral requirements

# HISTORICAL 20 YEAR LENDING RATES



# 504 LOAN PROGRAM

- Public/Private financing program for commercial lending
- Provide access to public capital markets for small businesses
- Financing for fixed assets (land and building, FF&E, and/or equipment)
- Low Fixed Interest Rates on 10 or 20 year terms
- Loans up to \$5 Million or \$5.5 for manufacturing or “green” incentives

# 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

# ADVANTAGES FOR THE BORROWER

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



*Roger Williamson, MWD Steel Fabrication, LLC  
Lincoln, Nebraska*

# ADVANTAGES FOR THE BANK

- **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
- 504 Loans are not counted towards a Bank's commercial real estate concentrations
- **The bank can make their own credit decision and use their own documentation**
- Less SBA paperwork than 7A
- Helps maintain borrower's lending limit preserving ability to loan for working capital or inventory





# ADVANTAGES FOR YOUR COMMUNITY

- Economic Objectives: job creation; minority, women-owned, and veteran-owned businesses; redevelopment
- Capital investment; tax base increase
- Stimulation of other development
- **Greater access to capital for “underserved” market**
- Bring new income into the community
- Improve, diversify, or stabilize the economy



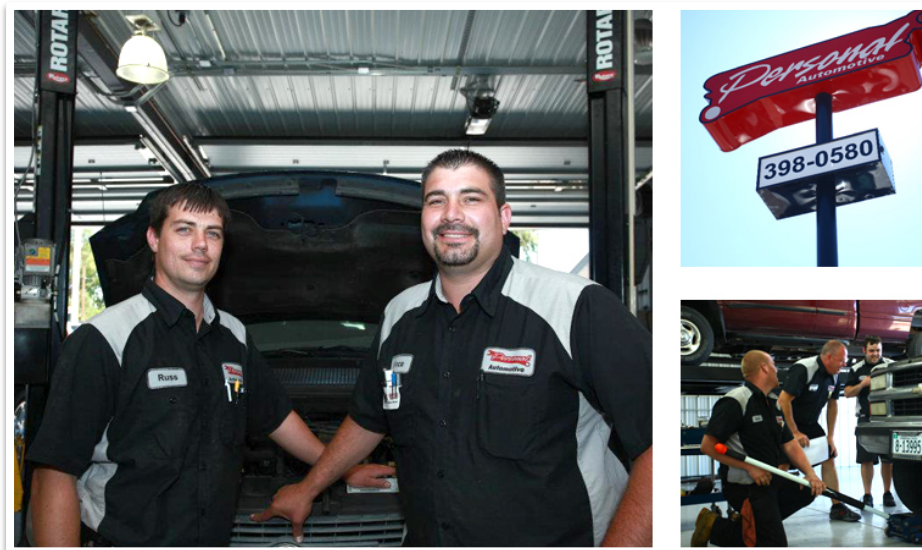
*Swanson Gentleman Hart, Inc., Omaha, Nebraska*

# 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*
  - *Community impact*
  - *Public policy goals*

# 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)



*Russ Francl and Vince Mendez, Personal Automotive  
Grand Island, Nebraska*

# LOAN CALCULATION FROM WEBSITE

[www.NedcoLoans.org/resources/loan-calculator](http://www.NedcoLoans.org/resources/loan-calculator)



# INELIGIBLE BORROWERS

- Non-profit
- Public Companies
- Speculative Development
- Lending Institutions
- Life Insurance Companies
- Gambling Concerns
- Private Clubs



# 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)
- The sale of an existing business to a new owner without adequate experience is considered a start-up
- Special Use Properties are defined by the SBA in SOP 50 10 5 (F) page 238
- 27 Properties are considered special use
  - *Gas Stations, Hotels, Automotive Service Centers, Car Washes, Nursing Homes*

# EXAMPLE 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		
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<b>TOTAL</b>	<b>\$1,000,000</b>	<b>TOTAL</b>	<b>\$1,000,000</b>

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

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

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<b>TOTAL</b>	<b>\$1,500,000</b>	<b>TOTAL</b>	<b>\$1,000,000</b>
<b>Appraisal</b>	<b>\$1,000,000</b>	<b>Remainder</b>	<b>\$500,000</b>

*\*The remaining balance can be put in 3<sup>rd</sup> lien position behind the SBA, Paid by the Borrower with cash (does not count toward equity injection), or can be financed by the Bank using separate collateral.*



# EXAMPLE START-UP WITH INELIGIBLE COSTS

Acquisition	\$800,000	TPL (Bank)	\$500,000
Renovations	\$100,000	NEDCO	\$350,000
Equipment	\$50,000	Equity	\$150,000
Soft Costs/Conting.	\$50,000		
Inventory	\$25,000		
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<b>TOTAL</b>	<b>\$1,025,000</b>	<b>TOTAL</b>	<b>\$1,000,000</b>
<b>Ineligible Costs</b>	<b>-\$25,000</b>		
<b>Total Project</b>	<b>\$1,000,000</b>		

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

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

# EQUITY SOURCES

- TIF – Considered cash by the SBA
- Personal Loan – Must be evidenced on PFS
- Seller Carry-back – 3<sup>rd</sup> 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

# APPLICATION

## Business/Affiliate Information

- Business financial statements for the last two years (income statements and balance sheets)
- Current interim financial statement dated within the last 60 days (income statement and balance sheet)
- Federal tax returns for the last two years
- Signed IRS 4506-T of the operating company or seller (instructions and form attached)
- Two years of income and expense projections (start-ups, and if below 1.25 debt service for past 2 years)
- Business debt schedule and previous government financing
- For affiliated businesses (if applicable), last 2 years of federal tax returns

# APPLICATION

## Personal Information

- Personal financial statement (dated within the last 60 days)
- Personal tax return for last year
- Personal resume' and questionnaire
- Personal history statement

# APPLICATION

## Legal Entity Documents (As Applicable)

- Corporation – Articles of Incorporation and Bylaws
- LLC – Articles of Organization and Operating Agreement
- Partnership – Partnership Agreement
- Trust – Trust Agreement with all exhibits

# APPLICATION

## Determining Affiliates

- Any other business owned 20% or more by a principal owning 20% or more of the applicant Business
- Any business that provides a significant amount of control over the applicant Business' operations (Hotel management company)

# APPLICATION

## Real Estate/Equipment Information

- Real estate purchase agreement
- Construction cost budget
- Equipment bids and description of equipment (if equipment is being financed)
- Existing Notes, Lien instruments, if recently financed
- Appraisal and Environmental reports (if available)
- When ordering appraisal, appraisal needs to be made out to Bank, SBA, and NEDCO as intended users
- Environmental reports are completed by a 3<sup>rd</sup> party, and are often RSRA (Records Search and Risk Assessment) unless Phase I or Phase II become necessary

# ONLINE APPLICATION

- Borrowers can now complete the entire application process through NEDCO's new online application portal
- The online application provides a safe and secure way to complete the NEDCO application from your computer
- Upload required documents such as tax returns and financial statements directly to NEDCO
- By applying directly through the online application, Borrowers create a direct line of communication with NEDCO that helps speed up the application process



# INELIGIBLE USE OF FUNDS

- Working Capital
- Inventory
- Franchise Fees
- Rolling Stock
- Goodwill



# APPLICATION PROCESS

- Receive completed application
- Review for missing or incomplete information
- Prepare loan write-up for committee approval
- Submit write-up to loan committee – may take up to 7 days but typically only takes 3
- After approval, additional documents will be sent to the borrower for signature along with a request for a \$2,500 application deposit

*continue* ▼

# APPLICATION PROCESS

## ▼ *continued*

- Upon receiving signed committee approval documents, application will be submitted electronically to SBA
- SBA review typically takes 7 days before a decision is made
- SBA may “Screen Out” the loan if additional information is required
- The SBA will not continue to review the application until all screen out requests have been satisfied
- The SBA will usually review the updated application for another 3 days before issuing an approval

# FROM APPLICATION TO FUNDING

What You Need to Know to Move  
from Application to Funding

# LOAN PROCESSING & FUNDING SCENARIO FOR 504 SBA LOAN

Loan Submitted to Committee



Passes Loan Committee



SBA Approval and Authorization  
for Debenture Guarantee issued



# LOAN PROCESSING & FUNDING SCENARIO FOR 504 SBA LOAN

Caitlin Issues Closing List with Conditions



NEDCO Loan Closing/Signing and Site Visit



In House Counsel Conducts File Review



# LOAN PROCESSING & FUNDING SCENARIO FOR 504 SBA LOAN

Outside Counsel Conducts File Review



District Counsel Conducts File Review



File Sent to Wells Fargo



Debenture Sold/Loan Funding

# BANK AND BORROWER CLOSING RESPONSIBILITIES

- Obtain proof that project is complete in accordance with plan, specs, and appraisal
- Assure that project is in compliance with local, state, and federal mandates
- Obtain assurance that project is in compliance with zoning, building, and earthquake codes
- Proof that M&E and F&F have been purchased in accordance with Authorization
- Obtain evidence of Borrower's injection

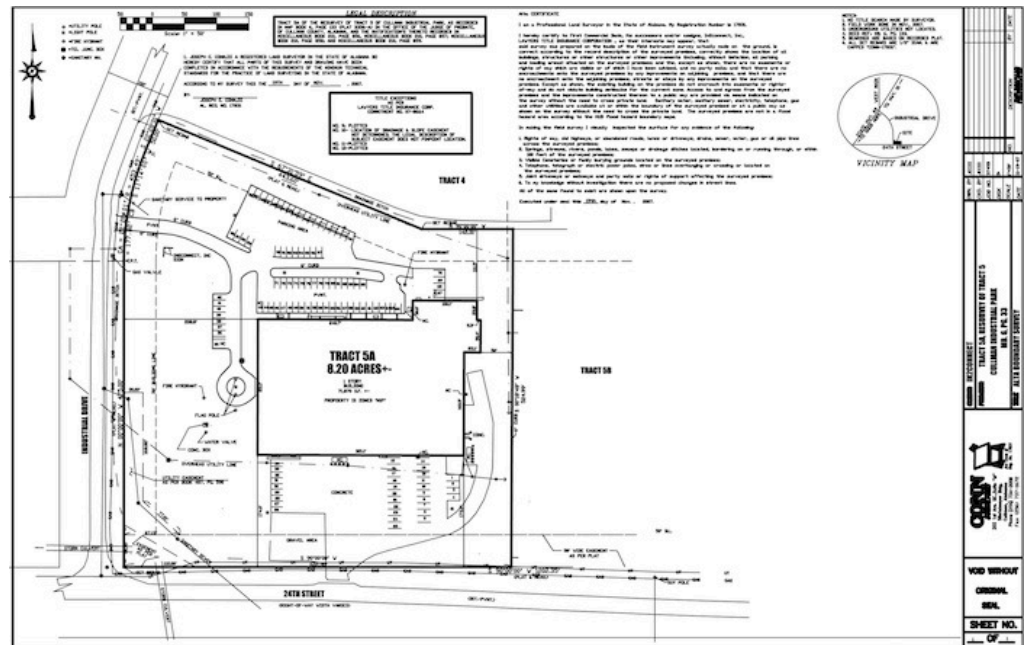


# BANK AND BORROWER CLOSING RESPONSIBILITIES

- Obtain evidence of interim and perm loan being fully disbursed and used in accordance with Authorization
- Verify that Borrower has not suffered an adverse change in financial condition
- Verify Borrower occupancy
- Obtain evidence of hazard life and flood insurance
- Verification of lien priority
- Verify tax returns with IRS transcript, good standing of entity, etc. as required by the Authorization

# PLANS, SPECS APPRAISAL

- Authorization will require a minimum FMV
- FMV must be evidenced by an appraisal and approved by SBA
- Appraisal must identify NEDCO/SBA as intended user
- As built appraisal must be provided if appraisal submitted SBA for approval is an as completed/renovated
- NEDCO will obtain SBA approval after appraisal received from TPL



# COMPLIANCE WITH

- Zoning
- Professional License or License to Operate
- Building Code and Earthquake
- Certificate of Occupancy from Building and Safety

# ELIGIBLE PROJECT COSTS

- E, F, F, & M
- Real Estate and Improvements
- Construction/Renovation
- Professional Fees
- Administrative Costs
- Other
- Interim Interest
- Interim Loan Bank Fees
- Recording

# INELIGIBLE PROJECT COSTS

- TPL Lender Fee
- Franchise Fees
- DIY Construction & Sweat Equity
- Perm TPL Loan Fees and Interest
- Working Capital Expenses
- Real Estate Taxes
- Payroll
- Advertising

# EVIDENCE OF PROJECT COSTS AND DISBURSEMENT

Acceptable documents evidencing acquisition of project assets – Real Estate:

- Certified settlement statement
- Loan disbursement sheet/ledger

# EVIDENCE OF PROJECT COSTS AND DISBURSEMENT

Acceptable documents evidencing acquisition of project assets – Personal Property:

- Invoices, bills of sale, or settlement statement
- Disbursement order
- Bank draw summary
- Loan disbursement sheet/ledger

# EVIDENCE OF PROJECT COSTS AND DISBURSEMENT

Acceptable evidence of construction costs, professional fees, and other expenses:

- AIA Disbursement Form
- Disbursement order
- Bank draw summary
- Loan disbursement sheet/ledger
- Interim interest statement



# PROOF OF PROJECT & EQUITY

## Documenting Proof of Equity Required Borrowers to Remember:

- Amount of Contribution must match the amount required in the Authorization
- Only Contributions made to Eligible Project Costs can be included
- Prefer use of NEDCO's Borrower Payout Sheet
- May also be evidenced by sources previously mentioned
- May also require checks



# PROOF OF PROJECT & EQUITY

## Summary

- Project costs, loan amounts and Borrower's Contribution must match Authorization
- Carefully track Borrower's Contributions and Loan Disbursements
- Always provide loan disbursement sheet/ledger
- Always provide certified settlement statement
- Always provide Disbursement Orders/Draw Summaries

# NO ADVERSE CHANGE

## Borrowers must certify and demonstrate No Adverse Change in Financial Condition

- Provide NEDCO Balance Sheet
- Provide NEDCO P&L
- Both must be current (120) days of loan signing/closing
- Both must be signed and dated
- SBA must approve NEDCO's conclusion of No Adverse Change

Balance Sheet					
For the Year End 2001 through 2005					
(all numbers in 000s)					
	2001	2002	2003	2004	2005
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and Equivalents	\$32,615	\$20,576	\$295,794	\$261,237	\$432,893
Net accounts receivable	563,995	361,644	376,110	391,154	469,385
Inventory	500,148	470,693	485,400	500,654	574,162
Other current assets	10,000	10,000	10,000	10,000	10,000
<b>Total Current Assets</b>	<b>\$1,106,758</b>	<b>\$862,913</b>	<b>\$1,167,304</b>	<b>\$1,163,046</b>	<b>\$1,486,440</b>
<b>Fixed Assets</b>					
Capital assets	\$100,000	\$600,000	\$600,000	\$1,100,000	\$1,600,000
Accumulated depreciation	84,000	172,200	264,810	362,051	464,153
<b>Total Net Fixed Assets</b>	<b>\$16,000</b>	<b>\$427,800</b>	<b>\$335,190</b>	<b>\$737,950</b>	<b>\$1,135,847</b>
<b>TOTAL ASSETS</b>	<b>\$1,122,758</b>	<b>\$1,290,713</b>	<b>\$1,502,494</b>	<b>\$1,900,995</b>	<b>\$2,622,287</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable	\$263,520	\$224,895	\$233,712	\$242,896	\$280,910
Short-term notes	70,000	0	0	0	0
Other short-term liabilities	0	0	0	0	0
<b>Total Current Liabilities</b>	<b>\$333,520</b>	<b>\$224,895</b>	<b>\$233,712</b>	<b>\$242,896</b>	<b>\$280,910</b>
Long-term liabilities	\$225,000	\$195,000	\$45,000	\$45,000	\$45,000
<b>Total Liabilities</b>	<b>\$558,520</b>	<b>\$419,895</b>	<b>\$278,712</b>	<b>\$287,896</b>	<b>\$325,910</b>
<b>Shareholders' Equity</b>					
Capital stock	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000
Retained earnings	444,238	750,818	1,103,782	1,493,099	2,176,377
<b>Total Shareholders' Equity</b>	<b>\$554,238</b>	<b>\$860,818</b>	<b>\$1,213,782</b>	<b>\$1,603,099</b>	<b>\$2,286,377</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$1,112,758</b>	<b>\$1,280,713</b>	<b>\$1,492,494</b>	<b>\$1,890,995</b>	<b>\$2,612,287</b>

# VERIFICATION OF OCCUPANCY

Borrower must occupy a required percentage of the real estate

- Must provide NEDCO copy of Lease Agreement
- NEDCO will conduct a site visit
- Be conscious of third party tenant obligations
- Occupancy requirement depends upon New or Existing Building
- Existing Building (51%)
- New Construction (60%)

# EVIDENCE OF INSURANCE

Borrower must have various insurances in place as required by the Authorization

- Hazard Insurance
- Note change to LENDER loss payee
- Flood Insurance
- Life Insurance
- Miscellaneous Insurance



# VERIFICATION OF LIEN PRIORITY

Borrower must provide NEDCO the lien priority required by the Authorization

- Verifying priority through UCC Search
- NEDCO uses Authorization to pre-file Financing Statement
- Verifying priority through title commitment/policy
- Title insurance requirements

# OTHER REQUIREMENTS OF AUTHORIZATION

Authorization will contain various other requirements

- Verification of Tax Return (4506T)
- Verification of Borrower's Good Standing
- Verification of individual's residency and name
- Verification of entities Officers
- Verification of licensure
- Verification of Bank's wiring instructions

**SBA** U.S. Small Business Administration  
**AUTHORIZATION FOR DEBT GUARANTEE (SBA 504 LOAN)**

SBA Loan #	<u>LoanNumber</u>
SBA Loan Name	<u>LoanName</u>
Approval Date	<u>ApprovalDate</u>

CDC: **Texas Central Development Company, Inc.** (SBAOwner)  
P.O. Box 1284 (SBAAddress)  
Austin, TX 78761 (SBACity, SBAState, SBAZip)

U.S. Small Business Administration (SBA)  
(SBAOwner)  
(SBAAddress)  
(SBACity, SBAState, SBAZip)

SBA will guarantee, under the following terms and conditions, a 20 year Debt Guarantee ("Debt Guarantee") in the amount of \$100,000.00 to be issued by CDC and used to fund a loan ("504 Loan") to be made:

Borrower:

**A. PROJECT TO BE FINANCED**

1. **Project Property ("Project Property")**  
Debt Guarantee Proceeds will be used as part of the financing for:

2. **Project Costs ("Project Costs") include:**

- a. Purchase Land \$25,000.00
- b. Purchase Land & Building \$25,000.00
- c. Construction/Remodeling \$25,000.00
- d. Purchase/Lease Equipment \$25,000.00
- e. Purchase/Lease Fixtures \$25,000.00
- f. Professional Fees \$25,000.00
- g. Other Expenses: \$25,000.00  
(Administration, contingencies, reserve interest)
- h. **TOTAL Project Cost** \$100,000.00

**B. PROJECT FINANCING**

1. **Debt Guarantee Proceeds:** Debt Guarantee Proceeds will be used to pay Administrative Costs and the final \$100,000.00 of the total Project Cost. Prior to the Debit Guarantee, the CDC conducts a 504 Loan Closing ("504 Loan Closing"), and forwards the closing documents to:

SBA Loan Number: LoanNumber Page 1  
SBA Loan Name: LoanName (Use Word 6.0)

# BANK LOANS AND DOCUMENTS

- Interim and Permanent Loans
- 3 Options for structuring
- Two Notes and Two Deeds of Trust
- One Note and One Deed of Trust with Modifications
- Two Notes and One Deed of Trust with Modification
- Must provide all bank documents



# BANK LOANS AND DOCUMENTS

- Common Mistakes Found in Loan Documents
- Amounts must match the Authorization (as amended)
- Proceeds must be used for eligible project costs
- Lien instruments may not be used to collateralize other financing
- No principal payments are permitted on the Interim Loan

# WHAT'S NEW IN CLOSING 504 LOANS

- Elimination of Rule prohibiting Preferences
  - *Revisions to Third Party Lender Agreement*
- Anti-Deficiency Act and the Indemnification Issue
  - *Waiver of Indemnity*
  - *Amendment to Third Party Lender Agreement*

# TIPS FOR GETTING THE 504 LOAN CLOSED

- Life Insurance
- Financing Statements/Searches
- Track Project Costs, Loan Disbursements, & Borrower's Contribution
- **Review the Authorization**
- Follow the Instructions of the Closing Conditions Letter
- Call or Email NEDCO with Questions

# WHY NEDCO? CAREFULLY CHOOSE YOUR RELATIONSHIP

- 504 Lending for 25+ years
- Processing 504 applications for approval
- Getting Authorizations/504 Loans funded
- Processing servicing request
- Focus exclusively on 504 Lending



# WHY NEDCO? CAREFULLY CHOOSE YOUR RELATIONSHIP

- Staffed with Individuals who specialize on specific aspects of 504 Loan process
- In-house counsel
- Focus on bank satisfaction and relationships



# WHY NEDCO? COSTS MATTER

Same 504 Loan Product at reduced cost to the Borrower – What to look for:

- Most CDC's charge \$2,500
- NEDCO has charged \$1,950
- Compare the costs evidenced by the Assistance Agreement

# CONTACT NEDCO

## Main Office

4445 S. 86<sup>th</sup> Street, Ste 200

Lincoln, NE 68526

Phone: 402-483-4600

Fax: 402-261-6484

## Regional Office (Ted Rowan)

5 Lakeview Road

Brady, NE 69123

Phone: 308-221-8611



*Thank You!*