

RMA Lunch & Learn

The Reasons SBA 504 Loan Volume Has Increased (An Overview & Update)

Presented by:

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Presentation Overview

- 1. Background on BDC Capital and our products**
- 2. Overview of SBA 504 and how it works**
- 3. Recent changes/upgrades to SBA 504**
- 4. Market trends for SBA 504 lending**



BDC Capital

- **Founded in 1953, BDC Capital is the oldest business development corporation in the U.S.**
- **We are a stock owned company, with more than 38 local and national banks currently having ownership**
- **We have assisted more than 6,000 companies and invested over \$1 billion in capital**
- **We service all 6 New England states and the eastern portion of New York**
- **We offer a variety of financing products, depending on the client's individual needs**
- **CDC New England, a non-profit affiliate company, acts as an agent for our SBA 504 loans**



Available throughout New England and parts of NY – BDC Capital

Direct loans to operating companies:

- **ABL Loans – Fully-followed Asset-Based Loans against A/R and inventory – \$500K to \$10M**
- **Term Loans – including SBA 7(a) loans - \$500K to \$10M**
- **Mezzanine Debt – growth capital/business acquisitions- \$1M to \$5M**

Overview of 504 Lending



AN SBA 504 LOAN IS A FIXED RATE, LONG TERM LOAN DESIGNED TO PROMOTE BUSINESS GROWTH AND JOB CREATION AND EXPAND CAPITAL ACCESS.



504 LOANS ARE ONLY AVAILABLE THROUGH CERTIFIED DEVELOPMENT COMPANIES (CDCS) AND ARE OFFERED IN PARTNERSHIP WITH A LENDER.



A CDC IS A NON-PROFIT ORGANIZATION, CERTIFIED AND REGULATED BY THE SBA, WITH A MISSION TO STIMULATE ECONOMIC DEVELOPMENT WITHIN ITS COMMUNITIES.

Eligible Use of Proceeds

- **Owner-occupied real estate**
 - Land, existing buildings, construction, renovation, and site improvements
 - Occupancy Requirements:
 - Existing Real Estate- 51%
 - New Construction- 60% at issuance of C.O. and 80% after 10 years.
20% can be permanently subleased
- **Machinery and Equipment**
 - No rolling stock
 - Useful life of at least 10 yrs.
 - Can include moving and installation costs & furniture & fixtures
- **Soft costs (that can be financed)**
 - Professional fees, bank attorney fee, interest reserve, and contingencies
- **Refi existing debt**

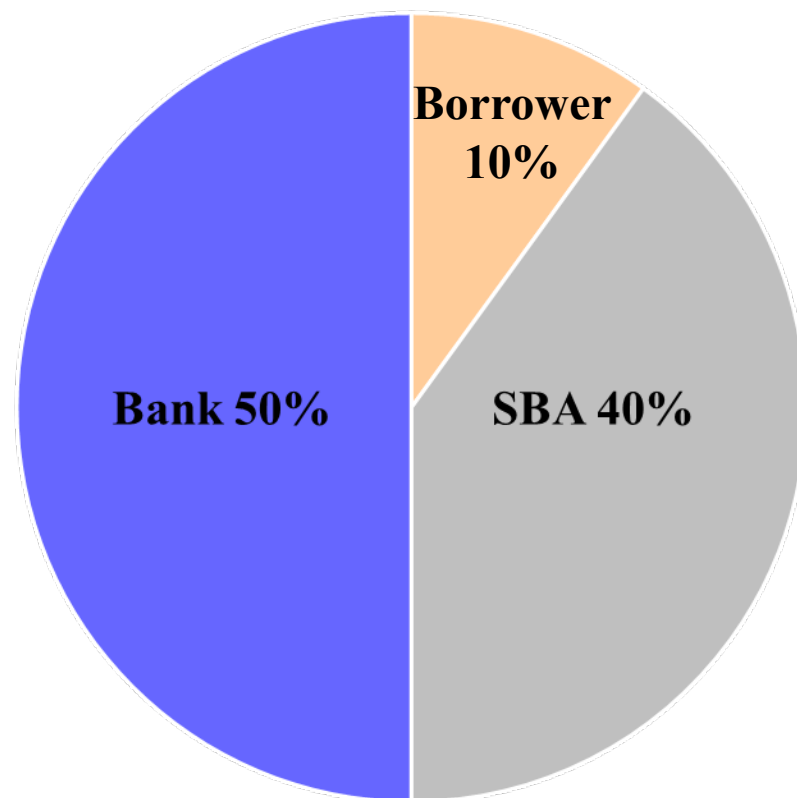
CDC New England- SBA 504 Loans

- Can be mixed-use building (including residential housing)
- Can count outside square footage towards 51% owner-occupied
- Can be equipment only
- Can finance start-ups
- Can finance owner buyout (if real estate is the collateral)

SBA 504 Loans

How it works:

- The SBA partners with the bank
- Borrower only contributes 10%
- Bank provides one loan for 50%
- SBA provides secondary loan for 40%



Sample Project

Uses:

- \$ 650,000- Building purchase
- \$ 150,000- Building renovations
- \$ 200,000- Machinery & Equipment
- \$1,000,000- Total project

Sources:

- \$ 500,000- Bank loan
- \$ 400,000- SBA loan
- \$ 100,000- Borrower contribution
- \$1,000,000- Total project

Typical 504 Structure

Breakdown of loan percentages for different types of projects

	Normal	Special-use	Start-up	Start-up AND Special use
Bank	50%	50%	50%	50%
SBA	40%	35%	35%	30%
Borrower's Equity*	10%	15%	15%	20%

*Equity: Cash, equity in project property, or borrowed

Maximum 504 Loan Amounts

➤ Regular 504 loan= \$5M maximum

- For each small business concern
- Includes applicant and affiliates
- All committed or outstanding 7(a) or 504 loans count against max.

➤ Small Manufacturers & Green Energy Projects= \$5.5M max

- For each project up to a maximum total exposure of \$16.5M
- Small manufacturers include NAICS codes starting with 31,32, and 33
- Green Energy must reduce energy consumption 10% or more
- Generate 15% or more from Green Energy sources

504 Refinance- 3 Options

Option 1- Straight Refinance

- Qualified debt must be at least 6 months old
- Can include same institution debt
- Max 90% LTV

Option 2- Refinance with Cash-back

- Can include cash-out to pay for eligible business expenses. Cash-out is limited to 20% LTV
- Max LTV is reduced from 90% to 85%
- Eligible business expenses include any operating expenses that are currently due or will come due in 18 months. Business LOC's and business credit cards are also eligible

504 Refinance- 3 Options Cont...

Option 3- Refinance with Expansion

- Includes same basic parameters as the 504 straight refinance
- Expansion debt must be equal to at least the same amount of existing indebtedness (1:1 ratio of old money vs. new)
- Expansion costs include: acquisition, construction, or improvement of land, building or equipment
- Equity in land and/or building that is being refinanced may be included as Borrower's equity
- Must demonstrate Substantial Benefit to applicant
 - Substantial Benefit means that they will save at least 10% on the refi of their existing debt
 - Loans with balloon payments automatically meet the Substantial Benefit test

CDC New England – SBA 504 Loans

January 2022:

25-year fixed rate 3.42%

20-year fixed rate 3.22%

10-year fixed rate 2.99%

Rate is for the SBA portion only

SBA 504- Typical Uses/Industries

- **Restaurants (existing or start-up)**
- **Manufacturers (real estate and/or equipment)**
- **Service/Retail industry businesses**
- **Medical (MD's, dentists, veterinarians)**
- **Laundromats**
- **Car dealerships**
- **Gas stations**
- **Nurseries/landscapers (acreage counts for occupancy)**
- **Breweries**
- **Refinance (stand alone, cash-out, refi/expansion)**

SBA 504- Unique Uses

- **Hotels/Motels/Bed and Breakfasts/RV sites/Campgrounds**
- **Marinas**
- **Sport bubbles/domes**
- **Boats, forklifts, cranes, un-registered construction vehicles (excavators, bulldozers, etc.)**
- **Self Storage (can finance 90%)**
- **Golf Courses**
- **Nursing homes/Assisted living/Group homes**
- **Gun Ranges**
- **Quarries**
- **Funeral Homes/Crematoriums**
- **Multiple locations in multiple states- had a company purchase 5 locations in 3 states (CT, MA, RI)**

Success Story - Mystic River Hotel & Suites

Background:

-Hotel purchased out of foreclosure in Mystic, CT for \$4.5 million.

Issue:

-Financed through “Hard money” loan. Only a 2yr term with interest rate at 12%.

Solution:

- Provided an SBA 504 to refinance the hotel. We were able to include all fees/penalties associated with hard money loan. Customer was put into a 25yr fixed rate mortgage.

Banking partner: BayCoast Bank

Total project size: \$4,430,990

504 loan amount: \$1,362,000

Jobs retained/created: 20



Success Story – Innovative Display & Design

Background:

- Marketing/manufacturing company in Bridgeport looking to purchase and renovate a 150,000sqft building in Milford, CT.
- \$12 million total project cost.

Issue:

- Community bank that was above their lending limit and would need to participate out the loan.

Solution:

- BDC Capital was able to provide a \$5.4M bridge loan to participate with the bank during construction, limiting the banks exposure to only \$5.4M.

Banking partner: Connecticut Community Bank

Total project size: \$12,000,000

504 loan amount: \$5,500,000

Jobs retained/created: 84



Why Use the 504 Program?

For Lenders:

- ✓ Mitigating collateral risk
- ✓ Managing industry concentrations
- ✓ Limiting collateral to project assets.
- ✓ Attracting new borrowers
- ✓ Broadening your lending reach to close more deals

For Borrowers:

- ✓ Own instead of lease
- ✓ Below-market fixed interest rates
- ✓ Low fees
- ✓ Terms- 10, 20, and 25 years
- ✓ Low down payment- as low as 10% in most cases

504 Program Best Practices

- **The sooner you can get the CDC involved the better! It's never “too early” to start asking questions and formulating a structure that will work best for your customer.**
- **Work closely with the CDC so the process appears seamless to the customer. Including the CDC on all dialogue will reduce timelines and possible confusion during the process.**
- **Always offer the 504 as an option! You'd hate for a competitor to offer it and lose the deal simply because you didn't present it. Almost any business can qualify if they are owner occupied or buying equipment.**

SBA 504- Program Updates

LONG TERM FEE REDUCTIONS:

- SBA servicing fee was reduced by 21 bps effective Oct 1, 2021

REFINANCING ANNOUNCEMENTS:

- Can refinance existing 7(a) and 504 loans
- Can refinance any loan that is 6 months old (used to be 2 years)
- Can refinance loans that have had payment delinquencies over the past 12 months (formerly ineligible)

SBA 504- Program Updates Cont...

504 EXPRESS LOAN PROGRAM ANNOUNCEMENT:

- **CDC's will be able to self approve loans up to \$500,000**
 - **This will be a HUGE time savings for CDC's and the SBA.**
 - **This will streamline the loan approval process and allow the SBA to assist more companies.**
 - **Still awaiting formal guidelines from the SBA as to how this will be implemented.**

Market Trends

Background

- **SBA 504 lending has had 2 years of record highs in both dollars provided and deals closed.**
- **FY20' had nearly \$6 billion in approvals to over 7,100 applicants.**
- **FY21' had over \$8.2 billion in approvals to over 9,600 applicants.**
- **For the first time since its inception, the 504 program ran out of money in September 2021 (until the new fiscal year started in October).**



Market Trends Cont...

What has caused this historic volume?

- **Stimulus incentives-** reductions in fees AND free payments
- **Historically low interest rates-** as low as 2.39% for 25yrs FIXED
- **Market fear-** having the certainty of a fixed rate for 40% of your loan became VERY attractive to clients as well as conserving cash. Many borrowers were concerned about a repeat of 2008 and wanted to retain liquidity
- **Rent increases-** often times it is cheaper to own vs. rent
- **Consumer knowledge-** more savvy consumers and bankers educating themselves on the benefits of 504

Market Trends Cont...

Will the volume/growth continue in 2022 and beyond?

WE HOPE SO!

2022 is already off to a fast start. While COVID continues to play a role in the economy, people, businesses, and governments are adapting to the “new norm”. Even with the recent spike in the Omicron variant, vaccination rates continue to climb as well, and deaths are on the decline.

With the Feds set to increase rates at least 4 times this year, the 504 will continue to be a strong option to lock in low-interest rates and provide long-term stability to businesses.



Questions??



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