

SBA 504 Closing Guidance for Lending Partners



Agenda



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Brief Overview of 504

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Funding Timeline (what does closing mean?)

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Final Thoughts/questions

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Introductions



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SBA 504 Overview

Economic development loan program, **jointly provided by lenders and Certified Development Companies (WBD)**, offering eligible borrowers:

Uses Fixed asset financing- equipment and owner-occupied real estate- AND debt refinancing

Lower Down Payment Low down-payment -as low as 10%

Fixed rates Long-term, below-market, fixed rates - fixed for 10, 20 or 25 years

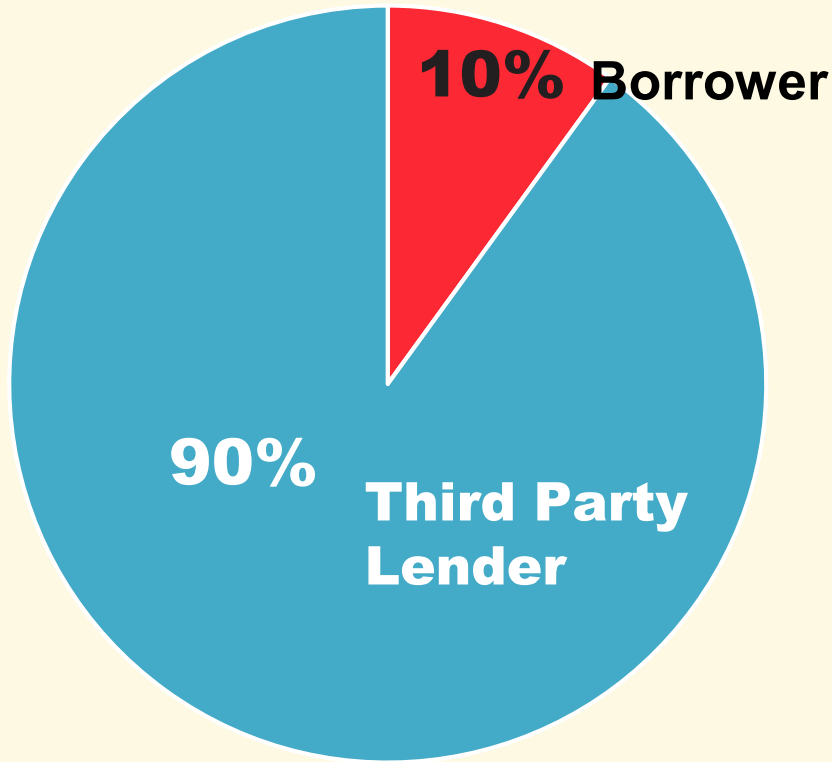
Structure and Size Fully amortizing loans, no balloon payments
504 loans up to \$5.0MM/\$5.5MM
Project size greater than ~ \$500,000



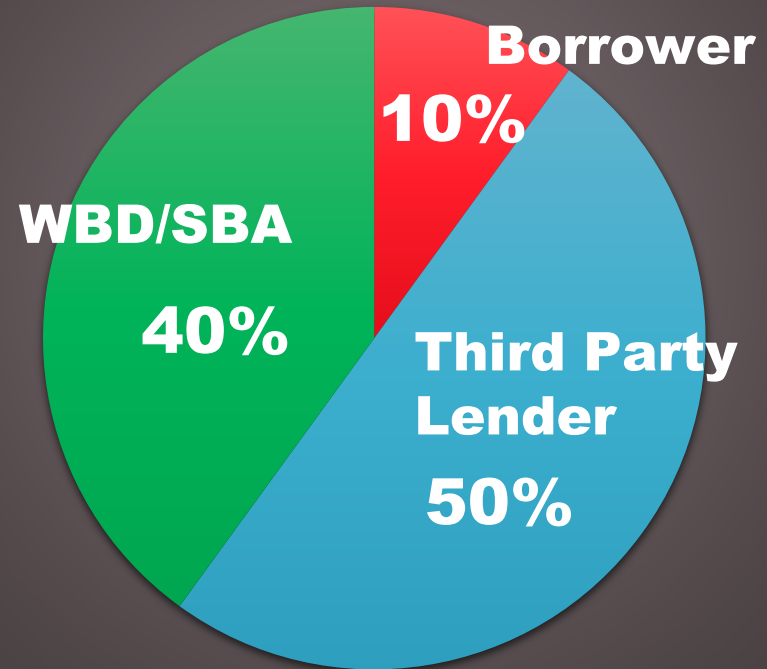


Typical 504 Structure

Interim Financing



Permanent Financing: 50-40-10



- Third Party Lender's portion is a conventional loan
- Additional collateral may be taken for Interim Financing
- 504 portion has 100% SBA guaranty



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SBA has Approved the Loan, Now What?

- Schedule POST APPROVAL MEETING
 - Meeting scheduled by WBD
 - This meeting will include the lender, borrower, WBD, and other support personnel
- Banks/CU can close on the purchase, refi, construction, etc.

- Post SBA Approval Meeting Topics:
 - Discuss SBA Requirements
 - Timeline
 - Documentation needed



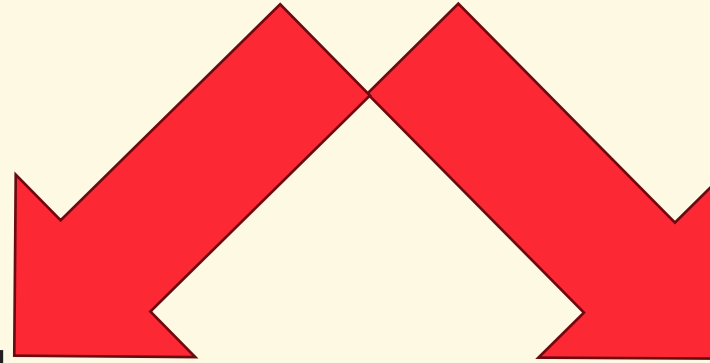


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Two Closing Paths

Standard Close

- Straight purchase
- Refinance
- Simultaneous Closing



Construction Close

- Ground-up construction
- Major/Minor renovations
- Refinance with expansion
- Equipment loans

Timeline

- Moves directly into SBA “Closing” Process
- SBA funding typically 90 days from approval

Timeline

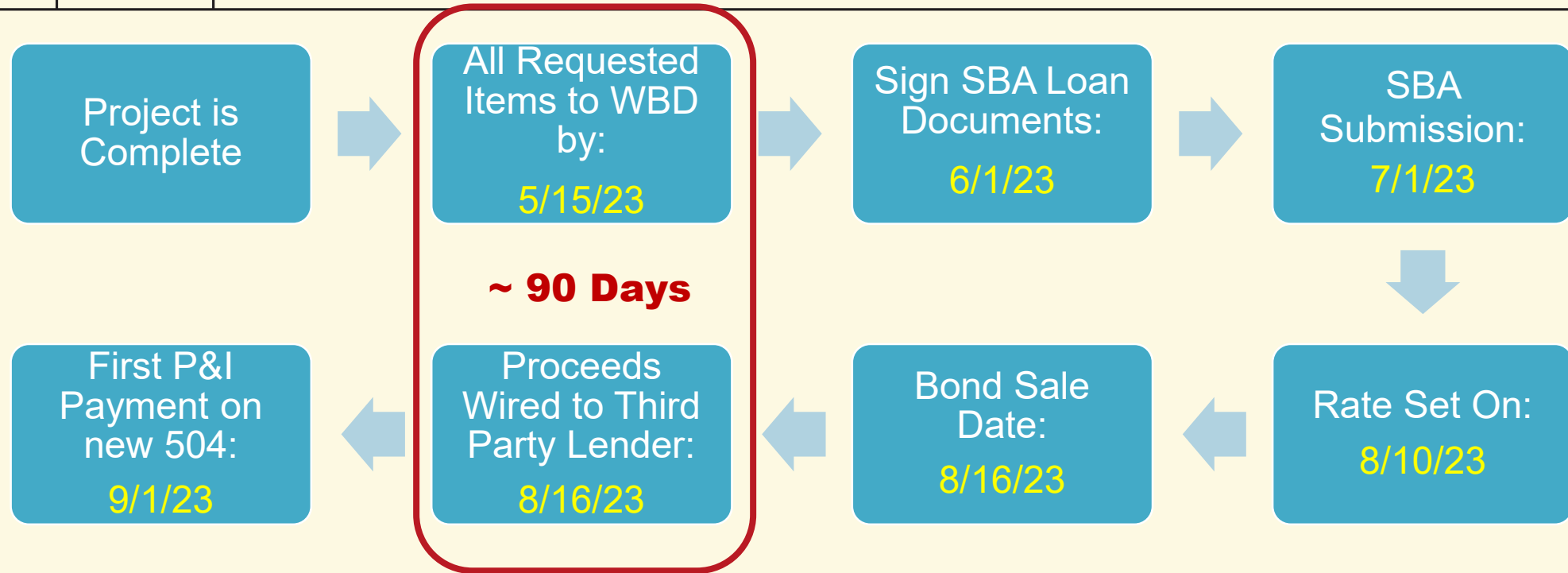
- Moves into SBA “Closing” Process after the following:
- Construction Completion
 - Fully drawn
 - Final Occupancy





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504 Funding Timeline



When is a Project Complete?

Straight Real Estate Purchase / Refinance:

- ✓ Third Party Lender closes on the purchase or refinance

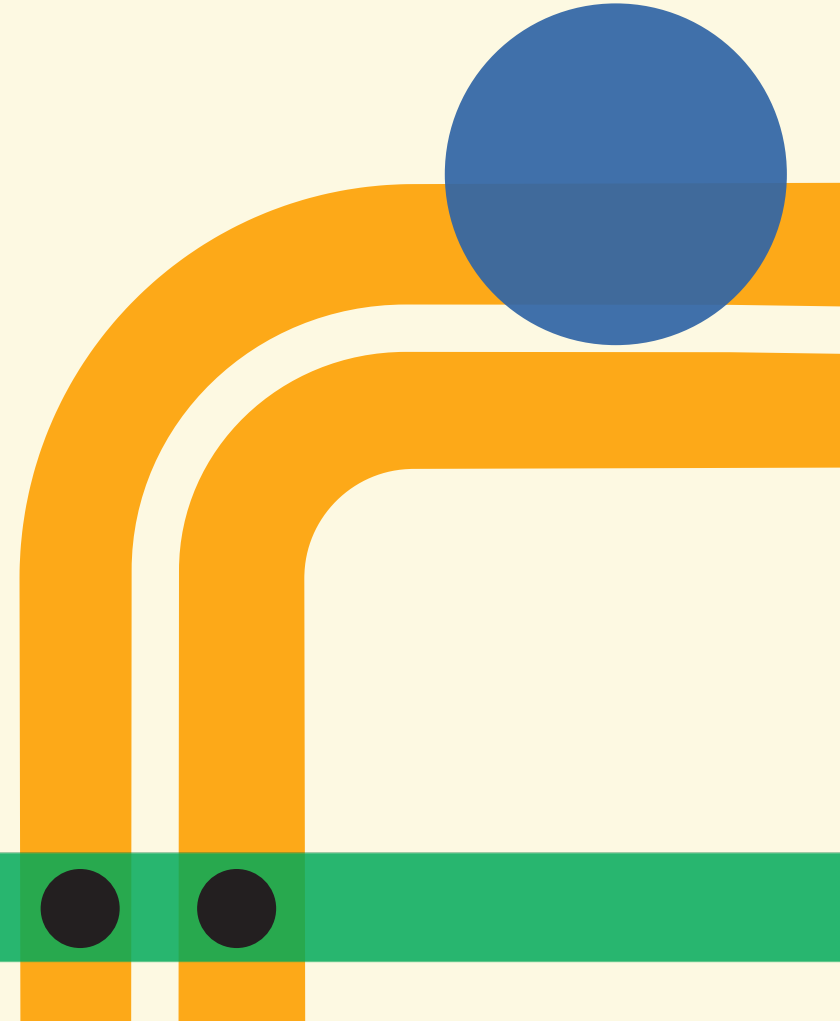
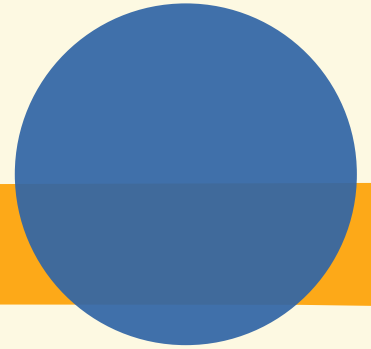
Construction Project:

- ✓ Construction is complete and final draw has been disbursed
- ✓ Certificate of Substantial Completion is signed off on by the General Contractor
- ✓ Clean Occupancy Permit (if applicable) has been issued by municipality



Most Common show stoppers/show slowers for closing

- Final Draw disbursement
- Final Occupancy
- Survey
- Substantial Completion
- Title Exceptions – development agreements, cell tower leases, etc
- Other liens on title
- Life Insurance
- UCC liens/subordinations
- Partner lender note extensions through SBA Funding
- Subtenant subordination agreements





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Allowable Project Costs and How We Track Them

Real Estate Costs

- Executed Settlement Statement signed or certified by title company
- Bank/CU disbursement or closing statement for bridge financing





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Allowable Project Costs and How We Track Them

Soft Costs

- Generally are allowable. Survey, environmental, title and so on.
 - SBA Lender participation fee is allowable. **Must be characterized as “Interim Loan Fee” or “Interim Lender Fee”**
 - **Origination and Bank fees CAN be included in “Interim Loan Fee”**
 - Exclude attorney fee’s incurred in closing
- Draft settlement statement/Bank Disbursement statement
 - **VERY IMPORTANT to share with WBD for review prior to closing.**



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Allowable Project Costs and How We Track Them

Equipment Costs

- Same or similar equipment as proposed in the application
- SBA requires serial number on any piece of equipment valued at \$5000 or over
- Covers all costs associated with purchase, transport and installation
- Furniture and Fixtures can be included as long as it is a minor part of the overall project

New Equipment

Invoice and proof of payment

Used Equipment

- Purchased from a dealer - invoice and proof of payment
- Purchased from a private party - an appraisal may be required



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Allowable Project Costs and How We Track Them

Construction Costs

- **The SBA requires evidence that all labor and materials were paid**
 - This can be invoices from individual contractors or the AIA draw requests and evidence of payment
- DIY construction - Borrower is own General Contactor
 - Disfavored by SBA
 - Has its own set of requirements
 - Contact WBD for specifics and approval

NOTE:

DIY Construction or other non GC contractor supervised construction may require an appraisal recertification to verify completed value or have all subcontractors sign off on the project.





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SHOW STOPPER: Survey

Construction of a new facility or modification to the footprint of an existing one will usually require a “**As Built ALTA Survey**”

- Title company may waive as built survey requirement if:
 - They are handling the draws
 - With issuance of survey endorsement
 - Cost of endorsement usually less (time and hassle)

Some title companies will remove the survey exceptions even for footprint changes or ground up construction

If you think a survey may be required, ask your closer before selecting a title company



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Allowable Project Costs and How We Track Them

Project Cost Verification

- Bank/Credit Union disbursed:
 - Copies of invoices, AIA docs, etc.
- Paid by borrower:
 - Copies of original invoice AND
 - Proof of payment from an account controlled by the borrower (front and back of cancelled check, screenshot of account showing ACH transfer or credit card statement)

Proof of
borrower's
contribution to
the project
required.





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Proof of Construction



Using a Title Company?

YES

- **Using a title company for the draws is preferred!**

- Is less work for all
- They gather lien waivers, track funds and in general make closing the 504 portion of the loan easier.



In all Cases:
We will need certificates of completion from either the general contractor or each contractor who performed work on the project depending on the amounts involved

NO

We will need the following:

- Final Lien waivers from every contractor
- Substantial completion forms from every contractor



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Proof of Construction

Full Disbursement

We will need a copy of the loan histories showing the loans have been fully disbursed with amounts on the loan histories matching the draws on the project .





Interim/Permanent Loans and Documents

Review Settlement Statement and Draft Notes

- **Interim** (Temporary note that's paid off by the SBA Debenture)
 - Interest-only payments
 - Maturity date
- **Permanent** (loan staying with the bank/credit union after 504 funding)
 - P&I payments allowed and/or short-term interest-only period
 - 10-year term (be cautious of 120 payments vs. actual 10-year term)
- **Construction Note(s)**

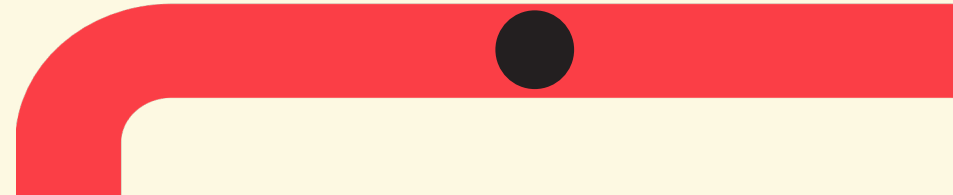


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Interim/Permanent Loans and Documents

Mortgage

- Two mortgages to match Notes
- Combined construction mortgage
- When/what to terminate upon debenture funding





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Interim/Permanent Loans and Documents

Third Party Lender Agreement

- Signed as part of WBD/SBA's closing package – recordable agreement between Bank/Credit Union and WBD/SBA
- Addresses collateral, liens, bank note language prohibited by SBA, etc



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Hazard Insurance Requirements

- **Real Estate Coverage**

- Full replacement cost or maximum insurable value
- Mortgagee clause

- **Personal Property Coverage**

- Full replacement cost or maximum insurable value
- Lenders Loss payable clause



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Workers Comp and General Liability

Required for all SBA 504 loans

- Typically included in the hazard Policy but can be a stand-alone policy.





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Insurance

Flood Insurance

- FEMA Form 81-93 Flood Certification
- Real Estate is in flood zone - coverage required
- EQ housed in building in flood zone coverage required.

Other Insurance

- Malpractice Disability
- Product Liability
- Dram Shop/Liquor Liability (WI non-issue vs. other states MN, IL, MI)





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Life Insurance

Life Requirements

- When Life Insurance is required, the minimum term of life insurance is:
 - 10 years for a 10 year debenture
 - 20 years for a 20 or 25 year debenture
- The Policy must have the ability to be renewed or extend out for the required 10 or 20 years from the SBA funding date.

Life Policy Sharing:

One life policy can be shared with the Lender and SBA/WBD

- Adequate coverage for both SBA and Bank requirement
- Intercreditor agreement/Life sharing agreement required





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Life Insurance

SHOW SLOWER

If life insurance is required for the SBA loan the policy must be:

- In place
- Have the required term
- Along with the executed assignment and acknowledgment

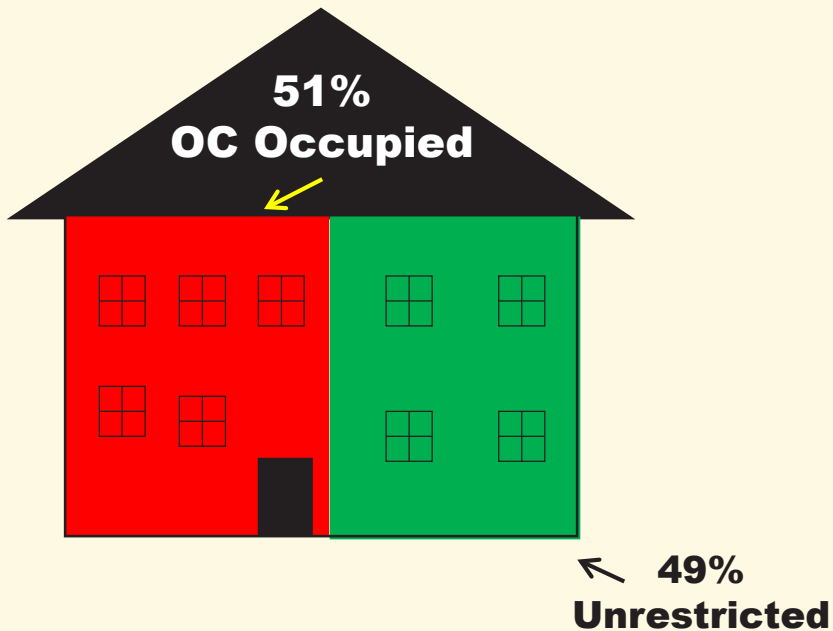




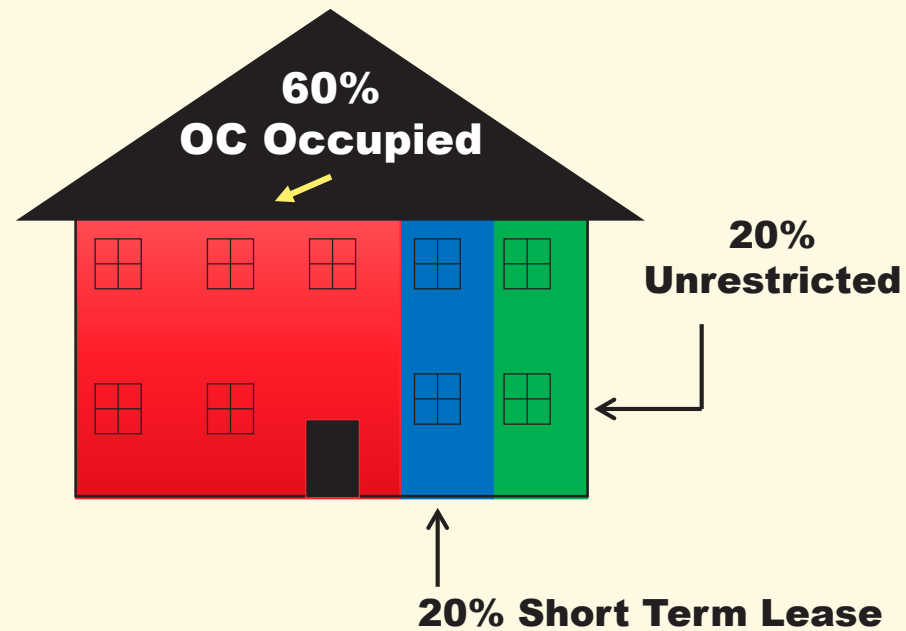
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Lease and Sublease Requirements

Existing Real Estate



New Construction



Borrower must begin occupying this space in Year 3 and occupy it by Year 10

Rentable Property in both cases may also include exterior space, not including parking, used by the business; e.g. storage yard for contractors, trucking companies, landscapers, etc.



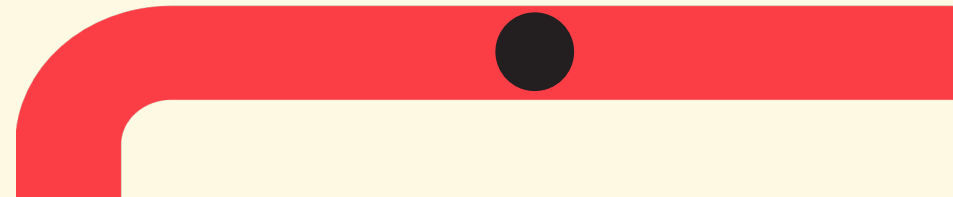
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Lease and Sublease Requirements

EPC (Real Estate Holding Company) / OC (Operating Company Business) Lease.

If SBA 504 Loan is to an EPC the EPC must lease 100% of the Project Property directly to the OC

- Must be in writing
- Term/options to renew through life of SBA loan
- Rent payments -limited to debt service and holding costs





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Subtenant Lease Requirements

SUBTENANTS

- EPC leases 100% of property to OC
- Subtenant leases run through OC
- Subordination agreement required





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Title/UCC/Liens

Title

- Share bank title commitment with WBD
- Some title exceptions need to be cleared by SBA
 - Covenants and Restrictions
 - Restricted use – Marketability
 - SNDA – Cell Tower & Billboard lease's & easements
 - TIF & Developer Agreements

UCC Liens

- SBA typically **MUST** be in second position on all project equipment.
- If there are intervening liens with broad language, they will need to be paid off or subordinated.
- Liens on non-project equipment can be dealt with via memo.





WBD is proud to be your partner in all stages of securing a SBA 504 loan.

We are committed to making the process as simple and painless as possible.

Please feel free to share any questions, comments or concerns.

Your input helps shape our process!



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Thank You!



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