

SBA 504 Term Loan

Definition:	This partner lending program uses a combination of conventional Bank financing and direct SBA financing to provide advantageous terms for a business' fixed asset related borrowing need. SBA 504 loans can be used to help finance the acquisition or improvement or refinance of commercial real estate or equipment. The primary advantages of this program include a low 10-20 year fixed rate with no balloons (on SBA's portion), low downpayment requirements, and an attractive 50% loan-to-value on the Bank's loan. We maintain relationships with various Certified Development Companies (who facilitate SBA's portion of the debt) statewide which allows for quick and efficient loan approvals and closings.	
Size of Loan:	SBA 504 loans can be used for projects of up to \$12,500,000 or even higher if loan meets SBA's "public policy" objectives or is a manufacturing project. Typically, the SBA loan can be for as much as \$5,000,000 (=40% of the project). The Bank's companion conventional loan is typically for 50% of total project. A minimum 10% cash equity is required on 504 loans and this increases an additional 5% if applicant is a new business and 5% more if a single purpose building is being financed (SBA's portion decreases as equity increases). The Bank will lend both SBA and Bank portions on an interim basis until SBA's end take-out is funded through a public debenture sale.	
Purposes:		<u>Max. Amort. in Yrs.</u>
	Purchase, construct, or improve real estate (>50-60% owner-occupied)	20
	Purchase new or used equipment, fixtures, or leaseholds	10
	Refinance existing qualified real estate or equipment debt	varies
Eligibility:	<p>These loans are targeted to for-profit, non-investment businesses only. In order to qualify for SBA 504 loans, a business must be considered "small" by SBA's definition. Currently, that definition is:</p> <ul style="list-style-type: none"> • Tangible net worth \leq \$15,000,000 AND avg. net income after tax of \leq \$5,000,000 OR • NAICS-based size standard if it results in a higher number (i.e. <500 employees) <p>While most businesses are eligible, a small number of industries and loan purposes will not qualify.</p>	
Interest Rates:	The interest rate on SBA's portion is fixed for the entire life of the loan and is set approximately 1-month following the end-loan closing. The interest rate on the Bank's interim loan and on their portion of the end financing is set by the originating market (fixed or variable rates are typically available) but in no case may the rate may not exceed P+6%.	
Equity:	The amount of cash equity required will be determined on a loan-by-loan basis, however, at least 10% cash equity is required for most purposes with an additional 5% each required for new businesses plus an additional 5% for single-purpose real estate.	
Collateral:	The Bank's loan will be secured by a 1st lien position on all assets financed + personal guaranties of principals owning \geq 20% of either the operating company or real estate holding entity (if loan purpose is real estate). Guaranties of related businesses, Lessor's Agreement, etc. may also be required. Additional collateral may be required (if available with discounted equity) if discounted collateral coverage is < 100%. SBA's loan will typically take a 2nd position on all collateral. A reasonable amount of life insurance is also required on key individuals.	
Prepayment:	Prepayments on SBA's portion of a 504 loans will carry a 10-yr. prepayment penalty if originally a 20-yr. loan or a 5-yr. prepayment penalty if originally a 10-yr. loan. Prepayment penalties on the Bank's portion are determined on a loan-by-loan basis.	
Fees:	Fees charged on SBA's portion typically equate to approximately 2.50 – 2.75% of SBA's portion + \$2,500. The Bank may also charge a fee on the interim loan and its 1st position loan. In addition, a ½% fee is typically charged on the Bank's portion by the Certified Development Company.	
Other:	At least one job must be created or retained for each \$65,000 of SBA's loan or \$100,000 if loan is for a manufacturing purpose. Appraisals, environmental studies, title insurance, and flood insurance (if applicable), are required on most real estate collateral. Business and personal financial statements and tax returns are typically required to be submitted to the Bank at least annually. A deposit relationship is also required. Other requirements and conditions may apply.	



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