



The Oakland County Business Finance Corporation (OCBFC) was certified under the Small Business Administration's (SBA) Certified Development Company program in September 1982. The OCBFC acts as an agent to analyze, package and submit loan requests under the SBA 504 program. The OCBFC also acts as the servicing agent for the approved loans. The purpose of the OCBFC is to stimulate the growth and expansion of business in Oakland County.

THE SBA 504 LOAN PROGRAM

The SBA 504 loan program provides viable small and medium size businesses with long-term fixed rate financing for the acquisition or construction of fixed assets. Projects are typically financed 50% private lender, 40% SBA and 10% by the small business. Because the SBA takes a secondary collateral position on project assets the private lender can reduce the amount of equity normally required of the borrower.

Sample Financing Combinations

50% Bank
40% SBA
10% Business

Special Purpose Building

40% Bank
40% SBA
20% Business

50% Bank
35% SBA
15% Business

The SBA 504 program is a "take out" financing program. The SBA offers an up front commitment to finance its portion of the project. The participating private lender provides interim financing, advancing project funds during the construction or acquisition period. After the project is completed, the SBA reimburses or "takes out" the private lender by the amount of the SBA's loan commitment. SBA loans are funded by the sale of federally guaranteed debentures on the open market. The SBA 504 program is an unsubsidized Federal loan program.

Project Size

Projects range between \$150,000 and \$10,000,000+. The maximum dollar amount the SBA can contribute to a single company is \$1,500,000 (\$2,000,000 for public policy projects and \$4,000,000 for manufacturers & more energy efficient companies). The SBA cannot exceed 40% of the total project costs. The debenture cannot be less than \$50,000, and no more than 50% of a project can be financed through federal sources.

Eligible Businesses

For-profit businesses engaged in manufacturing, retail/wholesale, service and construction that meet the following small business size standards (including affiliates):

- Tangible net worth less than \$8.5 million, and
- Average annual net profit after tax for the previous two years of less than \$3 million

Ineligible Businesses

The SBA has identified certain ineligible businesses including, but not limited to:

- non-profits
- lending institutions
- private clubs
- gambling facilities
- life insurance companies
- religious institutions

Eligible Passive Company

The SBA 504 funds can be lent to a passive company formed for the purpose of holding real estate or equipment for lease to an operating entity that is an eligible small business. Both the passive company and the operating company must meet small business size standards. The operating company must be a co-borrower or guarantor of the SBA loan.

Eligible Project Costs

- Land and building improvements
- Building construction, acquisition, expansion or renovation
- Equipment acquisition (new and used). Must have an economic life of at least 10 years
- Professional fees - survey, engineering, legal, architect, accounting, appraisal, environmental
- Interest, fees and points on the interim bank loan
- Refinancing for expansion projects

Note:

On the acquisition of an existing building the small business must occupy at least 51% of the space. The funds can be used to acquire the building, renovate the exterior, repair or install electricity, plumbing, heating and cooling for the entire building and renovate any space to be occupied by the small business.

On the construction of a building, the small business must initially occupy 60% of the space, and must occupy 80% of the space within 10 years. The SBA will take an assignment on all leases.

In either lease situation, the small business must show the ability to pay the project debt (both the bank and SBA loans) without the third party lease income.

Ineligible Project Costs

- Working capital
- Taxes
- Autos, trucks or airplanes
- Bank fees for end loan
- Counseling, finders or franchise fees

SBA Loan Terms

- 10 years for equipment
- 10 or 20 years for real estate and equipment combined

SBA Loan Interest Rate

- Fixed for the full term of the loan
- Determined at bond sale after the project is complete
- Bond sales are on the Wednesday of the second full week of each month
- The quoted effective rate includes the note rate paid to the bondholder and a combined on-going servicing and borrower guarantee fee of 1.2%

Prepayment

- Declining prepayment penalty for the first half of the term of the loan
- Allowed to prepay with 45 days written notice
- Debentures are assumable

Collateral

- SBA 504 loans are secured by a lien on the fixed assets acquired with the loan proceeds. SBA's lien is subordinate to the private lender's position.
- SBA requires personal guarantee(s) of any person owning 20% or more of the applicant passive and operating companies. Other personal guarantees may be required of key personnel, officers and/or directors.
- SBA may require additional collateral based on the type of business, debt coverage and type of assets being financed.
- Life insurance as collateral may be required on principal(s).

Jobs Test

- One job must be created or retained for every \$65,000 the SBA lends.
- Or, the business must meet community or area development tests.
- Or, the business must meet the National Objectives Test.
- For manufacturers this requirement is waived.

Credit Criteria

The 504 loan program is designed to assist healthy, expanding businesses that have been in operation for two years or more. The following credit criteria apply to such businesses:

- Existing or projected cash flow from business operations is greater than debt service needed to pay both existing debt and debt resulting from the proposed loan.
- Sufficient collateral to secure the loan.
- Sufficient working capital to sustain the projected growth of the company.

Private Lender

- Amount: The private lender's end mortgage or loan must be as much, or more than, the SBA's amount. Projects involving special purpose buildings or startups require a minimum of 50% bank financing. The private lender also provides interim lending.
- Maturity: At least 7 years on equipment. At least 10 years for real estate or a combination of real estate and equipment.
- Prepayment: Not regulated.
- Interest Rate: Must be reasonable.

Small Business Injection

The small business must inject at least 10% of the project cost in the form of cash, land equity, or land and building equity (must be part of project). Personal liquid assets (in excess of the total financing package) held by the owners may be required to reduce the SBA portion of the project. Projects involving special purpose facilities and/or start-up operations require a 15%-20% equity injection.

Fees

There are four types of fees associated with the SBA 504 loan program (first two fee listed are temporarily covered by the SBA).

- A one-time up-front participation fee equal to 1/2 of 1 % of the amount of the bank's mortgage on the project. This fee is paid by the primary lender just prior to closing.
- A one-time processing fee equal to approximately 2.2% of the SBA portion of the loan. This fee is built into the SBA loan amount and is financed over the term of the loan.
- An ongoing servicing fee of approximately 1.2% of the declining loan balance. This fee is included in the effective interest rate and is paid as part of the monthly payment.
- Legal fees and expenses incurred by the OCBFC in closing the loan are \$2,900. This fee is paid by the borrower prior to closing.

Processing Time

- 30-60 days from the date of application

For further information contact

Oakland County Business Finance Corporation
Bldg. 41 West
2100 Pontiac Lake Rd
Waterford, MI 48328
(248) 858-0765