



209 E. William, Suite 300
Wichita, Kansas 67202

SCKEDD Messenger

June 2007, Issue 6

504 Program

Injection Requirements

Borrowers can contribute as low as 10% in a 504 project thereby saving their cash for operations. This is just one of the many benefits to a 504 borrower. With the structure of a typical 504 project (10% borrower, 50% third party lender [bank] and 40% 504 SBA-guaranteed debenture), the lender feels comfortable wavering from the normal prudent lending policies requiring a 20-30% borrower injection. The lender is pleased to have a 100% first position on the project's fixed assets with a 50% loan exposure.

Please note, though, the SBA borrower contribution requirement can increase to 15% for new businesses or for projects involving a limited or single purpose building. If the project is for a new business and for a limited or single purpose building, the requirement is increased to 20%.

SBA's basic definition of "new business" is a small business that has been in operation for a period of two years or less. The business start date is the day that the business had its first sale. If there is a change in ownership that results in new day-to-day management, new clientele, new demographics, or different product line, then it would be considered "new." There are also guidelines to determine if the project should be considered an extension of its

existing operations and therefore, not "new."

The basic answer as to whether the real estate is considered "special purpose" or "general purpose" would be, if it is relatively easy and inexpensive to remove any improvements not applicable to a wide variety of users, the property is "general purpose" and would not require the additional 5%. The details in an appraisal can usually clarify any discrepancies. Examples of special purpose properties include: theaters, sports arenas, schools, cold storage plants, golf courses, gasoline service stations, hospitals, museums, and some recreational properties. Generally, SBA considers hotels and motels to be included as special purpose properties.

The borrower contribution is often cash from personal or business resources or assets purchased with the borrower's cash specifically for the project. The injection may be in the form of either equity or borrowed funds. Terms for the borrowed funds must be acceptable to SBA. The overall adequacy of the borrower equity position is, as always, a credit matter.

If there are any questions on a project structure, including the borrower contribution, please do not hesitate to contact us.

CONTACT SCKEDD TODAY!

316-262-7035, 800-326-8353, sandy@sckedd.org or rick@sckedd.org

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TOPIC for Next Issue:
504 Closing Tips

Monthly Rate Corner

504 Rates based on the most recent Debenture Sale

	<u>"Note Rate"</u>	<u>"Effective Rate"</u> <u>(includes fees)</u>
10-Year*	5.288%	6.359%
20-Year **	5.789%	6.680%

* May 2007 (10-year Debentures sell every other month)

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SBA 7(a) Program

More Points to Consider on SBA Express Loans

Last month we visited about using SBA Express loans to support your Revolving Line of Credit Loans. This program works well for RLOC's and is much easier to develop and put together than using the Capline loan program. A very important point that you must keep in mind is the guaranty period that you set the loan up with and the guaranty fee that you pay.

If you originally set the loan up for 12 months or less, the guaranty fee is one quarter of one percent. This is a nice cost savings for your customer. But, if you desire to renew the line you must pay a new guaranty fee and give notice before the original line matures. Otherwise you will have to get the line reinstated, which we are told is very tedious. Make sure you set this up on a tickler to renew several weeks before it is due to mature.

The agency does not tell you the loan is maturing; they just drop it off the Colson system. You could end up thinking you have a guaranty and ask for payment and find that it was closed out many months ago, leaving you with no coverage. You might want to consider using the program for terms longer than 12 months and pay the higher fee. This may cost more, but saves you some time and worry.

Remember: We are here to help you and your small business customer.

*Give Rick a call at **316-262-7035** (800-326-8353). His e-mail address is rick@sckedd.org. He will be happy to visit with you about possible applications.*

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Did you know that SCKEDD has internal lending programs to be used for "gap" financing? Our current fixed interest rates are:

USDA "IRP"—9.75%

EDA "RLF"—9.75%

SBA "Microloan"—10.25% for loans over \$10,000

10.95% for loans under \$10,000

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