



South Central Kansas Economic Development District (SCKEDD) Disclosure Statement

This Disclosure Statement is a summary of the rules and guidelines associated with the Small Business Administration (SBA) Community Advantage loan program and is intended for informational purposes only. It is not meant to be a complete listing of all relevant policies and requirements.

1. NO REPRESENTATIONS

The funding of an SBA Community Advantage loan is subject to satisfactory compliance with the terms and conditions set forth in a loan commitment document known as the SBA's Authorization. By signing this Disclosure Statement, a small business applicant acknowledges that he/she has not relied upon any representation made by SCKEDD, and that SCKEDD has made no representations or promises to the applicant regarding a formal SCKEDD or SBA approval of a loan or of qualifications to receive a loan through the SBA Community Advantage loan program.

2. SBA COMMUNITY ADVANTAGE PROGRAM TERMS AND CONDITIONS

Minimum Loan Amount

✓ \$50,000

Maximum Loan Amount

✓ \$250,000

The aggregate balance of all SBA Community Advantage loans to a single borrower, including the borrower's affiliates, may not exceed a total amount of \$250,000.

Variable Interest Rate

✓ WSJ Prime + 4.50%

Interest rates are subject to SBA maximums. SBA allows a maximum interest rate of Wall Street Journal Prime + 6.00%. The interest rate will be an adjustable rate that will have the opportunity to adjust every calendar quarter, based upon changes to the Wall Street Journal Prime.

Use of Proceeds-

Community Advantage loans can be used to finance a variety of general business needs including:

- ✓ Long-term working capital, including the payment of accounts payable and/or for the purchase of inventory
- ✓ To fund leasehold improvements
- ✓ To purchase equipment, machinery, furniture, fixtures, supplies, or materials
- ✓ To establish a new business or to assist in the operation, acquisition or expansion of an existing business
- ✓ To purchasing an existing business
- ✓ To purchase land & buildings, new construction, the expansion or conversion of existing facilities
- ✓ To refinance existing business indebtedness that is not already structured with reasonable terms and conditions

Loan Maturity-

- ✓ Maximum of 10 years for working capital, equipment, furniture, fixtures or inventory.
- ✓ Maximum of 25 years for long term equipment or machinery, and commercial real estate.

Loan maturities are based on an ability to repay, the purpose of the proceeds, and the useful life of the assets financed. However, maximum loan maturities have been established.

When loan proceeds will be used for a combination of purposes, the maximum maturity can be a blended maturity based on the use of proceeds or up to the maximum for the asset class comprising 51% or more of the use of proceeds.

SBA Guarantee:

- ✓ 85% on loans equal to or less than ≤\$150,000
- ✓ 75% on loans greater than >\$150,000.

Guarantee Fee:

The following guarantee fee structure applies:

- ✓ For loans of \$150,000 or less, a 2% guarantee fee will be charged.
- ✓ For loans from \$150,001 to \$250,000, a 3% guarantee fee will be charged.
- ✓ For loans with a maturity of 12 months or less, a 0.25% guaranty fee will be charged regardless of loan amount.

To offset the costs of its loan programs to the taxpayer, the SBA charges SCKEDD a guarantee fee (on the guaranteed portion) and a servicing fee for each loan approved and disbursed. The amount of the fees is based on the guaranteed portion of the loan. The guarantee fee is charged to SCKEDD by the SBA and is directly passed on to the borrower.

Packaging Fee:

- ✓ SCKEDD will charge a 2% packaging fee calculated on the gross loan amount
- ✓ Maximum packaging fee \$2,500.00

A packaging fee will be charged by SCKEDD on each application. The packaging services include assisting the borrower with the completion of the SBA forms and other document assistance relating to the SBA loan application.

This fee will be due and collected from the borrower at the time of submission to SBA.

In the event the borrower chooses to withdraw the loan application during SBA underwriting or after SBA approval, the packaging fee will not be refunded.

In the event the loan is not closed or funded due to unmet closing conditions, the fee will not be refunded.

Prepayment Penalties:

- ✓ During the first year after disbursement, 5% of the amount of the prepayment
- ✓ During the second year after disbursement, 3% of the amount of the prepayment
- ✓ During the third year after disbursement, 1% of the amount of the prepayment

Only applied when a loan has a maturity of 15 years or more and the borrower is voluntarily prepaying more than 25% of the outstanding balance within the first three years of the date of the first disbursement (not approval) of the loan proceeds.

Collateral Requirements:

At a minimum, a lien on all the fixed assets of the small business applicant is required.

A loan request is not to be declined solely based on inadequate collateral; however, SBA does not permit its guaranty to be used as a substitute for available collateral.

Additional collateral beyond the minimum lien on fixed assets may be taken, such as in the scenarios below:

- ✓ When loan proceeds will be used to refinance existing debt, the SBA Community Advantage loan must be secured with at least the same security and lien priority as the debt being refinanced
- ✓ When loan proceeds will be used to purchase assets, a first security interest in those assets is required
- ✓ If there is a collateral shortfall, available equity in the personal real estate of the principals (20% or greater ownership) must be taken. A lien on a personal residence or investment property may be limited to the amount of the collateral shortfall. SBA does not require a lender to collateralize a loan with personal real estate when the equity in the real estate is less than 25% of the property's fair market value.
- ✓ If there is a collateral shortfall, a lien against trading/ current assets may be taken, and
- ✓ Any other situations where additional collateral is deemed available and necessary

3. SBA COMMUNITY ADVANTAGE LOAN APPLICATION PACKAGE

SCKEDD will collect and review the SBA Community Advantage loan application package to determine if the business applicant is both eligible and creditworthy.

Minimum Loan Application Package

- ✓ Completed SBA Community Advantage Application including execution of this Disclosure Statement
- ✓ Completed and signed Borrower Information SBA Form 1919
- ✓ Completed and signed Personal Financial Statement SBA Form 413 for any owner owning 20% or more of business
- ✓ Completed and signed Community Advantage Addendum SBA Form 2449
- ✓ Existing Business; in operation two year or greater, most recent business tax returns and current year interim financial statements
- ✓ New Business: in operation in less than two years, one-year cash flow projections with written financial expectations
- ✓ Written business history (existing business) or business plan (new business)

Please keep in mind the above is not a comprehensive list of all information required to allow for a loan decision to be made. For a complete list of all information required, please refer to the SBA Community Advantage Program Document Checklist.

4. GENERAL ELIGIBILITY

Applicants must meet certain eligibility requirements. These requirements are designed to be as broad as possible so that the program can accommodate a diverse variety of small business financing needs. To be eligible for consideration under the SBA Community Advantage program, a business must:

- ✓ Be an operating business
- ✓ Be organized for profit
- ✓ Be located in the United States;
- ✓ Meet SBA size standards
- ✓ Demonstrate the need for the desired credit
 - The SBA is unable to provide loan financing to businesses if the business can obtain some or all the requested loan funds on reasonable terms from non-Federal sources, non-State, including SCKEDD, without SBA assistance.
The definition of Non-Federal sources includes the liquidity of owners owning 20% or more of the equity in the business applicant, and the business applicant itself.

5. SPECIAL CONSIDERATION FOR VETERANS.

SBA will give special consideration to a small business owned by a veteran or, if the veteran chooses not to apply, to a business owned or controlled by one of the veteran's dependents. If the veteran is deceased or permanently disabled, SBA will give special consideration to one survivor or dependent. SBA will process the application of a business owned or controlled by a veteran or dependent promptly, resolve close questions in the applicant's favor, and advance a maximum loan maturity. For SBA loans, a veteran is a person honorably discharged from active military service.

6. CREDITWORTHINESS

For all loan requests, the small business applicant will be screened through SBA's E-Tran system to ensure the application meets the minimum credit score required by the SBA (determined by SBA and subject to change).

The credit score is calculated based on a combination of consumer credit bureau data, business bureau data, borrower financials, and application data. The minimum credit score may be adjusted up or down by the SBA from time to time.

At a minimum, a credit analysis is performed by SCKEDD to address and present the following:

- Brief description and history of the business applicant
- Management analysis
- Brief analysis of the historical financial performance of the business applicant
- Repayment ability of the borrower including past earnings, projected cash flow and future prospects
- Global cash flow coverage
- Owner/guarantor credit analysis including personal financial statements
- Acceptable level of equity and pro-forma debt-to-worth

Additional requirements and underwriting criteria are allowed at the discretion of SCKEDD.

The application will be denied if it does not receive an acceptable E-Tran score, is determined to otherwise not meet the program requirements or eligibility, is not granted approval by SCKEDD or the SBA, is not found creditworthy, or in any other way deemed insufficient.

7. INELIGIBLE BUSINESSES

Ineligible businesses include those engaged in illegal activities, loan packaging, speculation, multi-sales distribution, gambling, investment or lending or where the owner is on parole.

The following types of businesses are ineligible:

- Non-profit businesses (for-profit subsidiaries are eligible);
- Financial businesses primarily engaged in the business of lending, such as banks, finance companies, and factors (pawn shops, although engaged in lending, may qualify in some circumstances);
- Passive businesses owned by developers and landlords that do not actively use or occupy the assets acquired or improved with the loan proceeds
- Life insurance companies;
- Businesses located in a foreign country (businesses in the U.S. owned by aliens may qualify);
- Pyramid sale distribution plans;
- Businesses deriving more than one-third of gross annual revenue from legal gambling activities;
- Businesses engaged in any illegal activity;
- Private clubs and businesses which limit the number of memberships for reasons other than capacity;

- Government-owned entities (except for businesses owned or controlled by a Native American tribe);
- Businesses principally engaged in teaching, instructing, counseling or indoctrinating religion or religious beliefs, whether in a religious or secular setting;
- Loan packagers earning more than one third of their gross annual revenue from packaging SBA loans;
- Businesses with an Associate who is incarcerated, on probation, on parole, or has been indicted for a felony or a crime of moral turpitude;
- Businesses in which the Lender or CDC, or any of its Associates owns an equity interest;
- Businesses which:
 - Present live performances of a prurient sexual nature; or
 - Derive directly or indirectly more than de minimis gross revenue through the sale of products or services, or the presentation of any depictions or displays, of a prurient sexual nature;
- Unless waived by SBA for good cause, businesses that have previously defaulted on a Federal loan or Federally assisted financing, resulting in the Federal government or any of its agencies or Departments sustaining a loss in any of its programs, and businesses owned or controlled by an applicant or any of its Associates which previously owned, operated, or controlled a business which defaulted on a Federal loan (or guaranteed a loan which was defaulted) and caused the Federal government or any of its agencies or Departments to sustain a loss in any of its programs. For purposes of this section, a compromise agreement shall also be considered a loss;
- Businesses primarily engaged in political or lobbying activities; and
- Speculative businesses (such as oil wildcatting).

8. INELIGIBLE USES OF PROCEEDS

SBA Community Advantage loan proceeds may not be used for the following purposes:

- ✓ To refinance existing debt where the lender can sustain a loss and SBA would take over that loss through refinancing
- ✓ To effect a partial change of business ownership or a change that will not benefit the business
- ✓ To permit the reimbursement of funds owed to any owner, including equity injection or injection of capital for the business's continuance until the loan supported by SBA is disbursed
- ✓ To repay delinquent state or federal withholding taxes or other funds that should be held in trust or escrow
- ✓ For any non-sound business purpose

9. LEASING EXCESS SPACE POLICY

If an expansion project involves the acquisition of an existing building, the applicant(s) must occupy at least 51% of the total building space. SBA Community Advantage loan proceeds may not be utilized to tenant-finish any portion of the building not being immediately occupied by that small business. On an expansion project involving new construction, the small business applicant(s) must initially occupy 60% of the total building space, intend to occupy additional space within three years, and reasonably expect to occupy at least 80% of the total building space within 10 years. No more than 20% of the total building space may be permanently leased out. For an existing building

project, SBA Community Advantage loan proceeds may not be utilized to tenant-finish any portion of the building not being initially occupied by the small business applicant.

10. "DO-IT-YOURSELF" CONSTRUCTION

Situations where the borrower is also the project contractor have generally proved to be an unsatisfactory arrangement on SBA loans. However, "do-it-yourself" construction and/or the installation of machinery and equipment, or situations where the borrower acts as its own contractor, may be permitted if it is possible to justify and document the following:

- ✓ The borrower/contractor is experienced in the type of construction and has all appropriate licenses
- ✓ The cost is the same as, or less than, what an unaffiliated contractor would charge as evidenced by two (2) independent bids on the work
- ✓ The borrower/contractor will NOT earn a profit on the construction

11. SIZE ELIGIBILITY REQUIREMENTS

A small business applicant, together with its affiliates (an affiliation occurs when one concern controls or has the power to control the other) generally may not have a tangible net worth in excess of \$15 million, and may not have an average net income after taxes in excess of \$5 million (two year average). Some exceptions can be made on this general rule.

12. PERSONAL/CORPORATE GUARANTEES

Personal guarantees are required from every person or entity owning 20% or more of a business applicant for an SBA Community Advantage loan. A personal guarantor is required on every SBA Community Advantage loan, even if no one owns more than 20%.

13. LIFE INSURANCE

Key-person life insurance will be required if the small business applicant is a sole proprietorship, single member LLC or a business otherwise dependent on one owner's active participation. The amount of life insurance required to be assigned will depend on the amount and type of collateral and will be at SCKEDD's discretion.

14. VALUATIONS, APPRAISALS, AND ENVIRONMENTAL REPORTS

Prior to ordering any of the following type of reports, SCKEDD will collect a check from the borrower to recoup the cost of the report(s). Should the loan request be approved and funded, the cost of the report(s) may be financed through the loan proceeds and the check returned to the applicant.

Business Valuation:

In the event of a loan application to fund any change of business ownership, determining the value of a business (not including real estate which is separately valued through a real estate appraisal) is the key component to the analysis of any loan application for a change of ownership. An accurate business valuation is required because the change in ownership will result in new debt unrelated to business operations and potentially the creation of intangible assets.

Equipment Appraisal:

If a valuation of fixed assets other than net book value is utilized through the underwriting process, an independent appraisal ordered by SCKEDD from a qualified third party will be required to support the higher valuation.

Valuation of Non-Commercial Real Estate or Real Estate Securing a Personal Guarantee:

The SBA has no specific appraisal requirements for non-commercial real estate (such as a residence) or real estate (commercial or noncommercial) taken as collateral to secure a personal guaranty. SCKEDD will utilize the tax assessed value in such situations.

Commercial Real Estate:

SCKEDD may require an appraisal of commercial real estate for projects involving the purchase, improvement or construction of real estate. All appraisals must be ordered by SCKEDD, performed by a state-certified or state licensed appraiser.

Environmental Reports:

An environmental investigation is required on all commercial property on which a lien will be taken. In most cases, an Environmental Questionnaire and Records Search with Risk Assessment will satisfy the SBA requirements. However, in some situations, additional environmental reports such as a Phase I and/or Phase II or other due diligence may be required.

15. FLOOD & EARTHQUAKE HAZARD INSURANCE

Flood insurance must be purchased if any building or equipment acquired, installed, improved or constructed with loan proceeds and is located in a special flood hazard area. Newly constructed facilities must be constructed to conform with the National Earthquake Hazards Reduction Program.

16. CREDIT DELINQUENCY/PRIOR BANKRUPTCIES

Any current or prior delinquency must be explained in full and proven to be in current status or paid in full. Full disclosure of prior personal or business bankruptcies is required.

17. PRIOR CRIMINAL OFFENSES/ARRESTS

If any individual positively answers Question 17 on the SBA 7(a) Borrower Information Form 1919, then the small business applicant is not eligible. If any individual positively answers Question 19 and is currently on deferred prosecution, parole or probation, then the small business applicant is not eligible. If any individual positively answers Question 18 and/or 19 on the SBA 7(a) Borrower Information Form 1919, that individual must complete the SBA Statement of Personal History Form 912, the Statement of Personal History Addendum B, and provide a signed and dated explanation with the specific details and reason for the positive answer(s) including the statement "all court conditions have been satisfied". Copies of all relevant court documentation relating to the event(s) will also be required. In the case of a prior felony arrest, an SBA fingerprint card will also need to be completed and submitted. The SBA's Borrower Information Form 1919 MUST be completed by all proprietors, general partners, officers, directors, managing members of any LLC, owners of 20% or more equity in any applicant business, any person/employee hired by the applicant business to

manage day-to-day operations AND any other person guaranteeing the loan, if that guaranty is required by the SBA. The determination of who is or isn't a key employee is made on a case-by-case basis by the SBA.

18. LEGAL PERMANENT RESIDENTS

SBA Community Advantage loans are available to businesses owned by persons who are not citizens of the United States. However, the processing procedures, terms and conditions may vary, depending upon residency status. Because fraudulent immigration documents are a serious problem, the status of each Legal Permanent Resident must be verified as part of the loan application process. Accordingly, applicants seeking SBA Community Advantage financing who are not citizens of the United States must provide (a) a legible copy of DOCUMENTATION (front and back) evidencing resident status, and, (b) a PERMISSION LETTER, signed and dated, which includes the statement "I authorize the US Citizen and Immigration Service to release information regarding my immigration status to [insert lender name here] because I am applying for a U.S. Small Business Administration loan."

19. LANDLORD AGREEMENTS

When a substantial portion of the loan proceeds are to be used for leasehold improvements or a substantial portion of the collateral consists of leasehold improvements, fixtures, machinery, or equipment that is attached to leased real estate, the Lender should obtain an Assignment of Lease with:

- A. A term including renewal options that equals or exceeds the term of the loan; and
- B. A requirement that the lessor provide a 60-day written notice of default to the Lender with option to cure the default; and
- C. A Landlord's Waiver. The Landlord's Waiver gives the Lender access to the leased premises and facilitates the liquidation of the collateral on the Borrower's premises and should be obtained for all SBA loans with tangible personal property as collateral.

20. MINIMUM EQUITY INJECTION AND VERIFICATION

Startup Business

At a minimum, SBA considers an equity injection (Applicant contribution) of at least ten (10) percent of the total project costs (all costs required to become operational, regardless of the source of funds) to be necessary for a start-up business to operate on a sound financial basis.

Change of Ownership

Resulting in a new owner (complete change of ownership): At a minimum, SBA considers an equity injection of at least ten (10) percent of the total project costs (all costs required to complete the change of ownership, regardless of the source of funds) to be necessary for such transactions. Seller debt may not be considered as part of the equity injection unless it is on full standby for the life of the SBA loan and it does not exceed half of the required equity injection.

SCKEDD will verify the equity sources used for the SBA Community Advantage loan prior to funding.

Verifying your cash injection requires the following documentation:

- A. a copy of the check or wire transfer along with evidence that the check or wire was processed showing the funds were moved into the borrower's account or escrow;
- B. a copy of the statement of account for the account from which funds are being withdrawn for each of the two most recent months prior to disbursement showing that the funds were available; and
- C. a subsequent statement of the borrower's account showing that the funds were deposited or a copy of an escrow settlement statement showing the use of the cash.

If the equity injection came from a gift or borrowed funds, exclusions and additional documentation may be required. The required documents needed will be outlined in the closing checklist following SBA approval of the loan request. Please keep detailed records of all funds spent on your project in anticipation of this requirement.

21. CHILD SUPPORT COMPLIANCE

No principal who owns at least 50% of the ownership or voting interest in a company applying for financing under the SBA Community Advantage loan program, may be delinquent more than 60 days under the terms of any (1) administrative order, (2) court order, or (3) repayment agreement that requires payment of child support. A certification of compliance will be required before any funds will be disbursed under the SBA Community Advantage loan program.

22. EQUAL CREDIT OPPORTUNITY

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract), handicap, because all or part of the applicant's income derives from any public assistance program, or, because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

23. IDENTIFICATION PROCEDURES

To help fight the funding of terrorism and money laundering activities, federal law requires SCKEDD to obtain, verify, and record information that identifies each person who applies for a loan. This means that they will ask for a name, address, date of birth, and other information, including copies of a driver's license or other identifying document.

24. CREDIT ALERT VERIFICATION REPORTING SYSTEM (CAIVRS)

If the applicant(s) defaults on the SBA Community Advantage loan and SBA suffers a loss, the names of the small business and the guarantors of the SBA Community Advantage loan will be referred for listing in the CAIVRS database, which may affect their eligibility for further financial assistance.

25. FINANCIAL PRIVACY

SCKEDD commits to protecting any and all personal information associated with an SBA Community Advantage loan application and commits to collect and disclose this information only as allowed by law.

SCKEDD maintains physical, electronic and procedural safeguards to secure, protect and to guard personal information. SCKEDD does not sell, trade, or barter personal information.

SCKEDD is required to secure an SBA credit score through SBA's ETRAN system and a credit bureau report on all business and individual applicants, owners (20% or greater) and guarantors.

A signature below acknowledges and authorizes this credit inquiry.

26. INDEMNITY AGREEMENT

Applicant(s) will indemnify and hold SCKEDD and/or its agents harmless from any and all loss or injury, including reasonable attorney fees, resulting or arising from failure by the applicant to receive such loan and/or any loss or liability to applicants or the business of the applicant. All parties agree that there are no other promises, terms or agreements (oral or written) between SCKEDD and that SBA Community Advantage Loan program terms, condition, fees, policies, and rules are subject to change at any time.

The undersigned acknowledges that he/she understands the provisions described within this Disclosure Statement as they apply to an application for consideration under the SBA Community Advantage loan program accessed through SCKEDD.

Business Applicant _____

Authorized Business Application Signor _____
Signature

Printed Name

Date