

MINNESOTA BUSINESS FINANCE CORPORATION

SBA 504 Loan Program

Community Banking Conference

October 15, 2009

Certified Development Companies

- Licensed and regulated by the SBA
- 501(c)(3) Nonprofit corporation
- Provides small-business owners with fixed-asset financing
- Promotes economic growth in the community

Benefits of 504 Loan

Borrower

- Lower equity injection (10 to 20%)
- 10- and 20-year fixed interest rates
- Short-term assets remain lien-free to support other financing needs
- 10-year (equipment) and 20-year (real estate) maturities

Benefits of 504 Loan

Third-Party Lender

- Risk management tool
- Excellent loan-to-value (typically 50% or less)
- Senior lien position
- Pricing flexibility on first mortgage portion
- First mortgage portion may be sold on secondary market
- Alleviates legal lending limit concerns
- Community Reinvestment Act credit

Debenture/Project Size

Debenture size

- Most projects: \$1.5 to \$2 million
- Manufacturing: \$4 million

Project size

- \$250,000 minimum no maximum

Basic 504 Loan Structure

Financing/Equity Requirements

- Third-party lender provides 50%
- CDC/SBA provides 40%
- Borrower provides 10% owners' equity

Factors impacting owners' equity

- Start-ups = 15%
- Special-purpose real estate = 15%
- Both start-up and special purpose RE = 20%

National SBA 504 Loans Approved

- FY 2009:

5,533 Loans / \$3,192,411,371

- FY 2008:

8,872 Loans / \$5,322,565,903

- FY 2007:

10,663 Loans / \$6,363,349,728

Minnesota SBA 504 Loan Approvals

- FY 2009:

195 Loans / \$96,547,000

- FY 2008:

- 367 Loans / \$185,314,000

- FY 2007:

- 439 Loans / \$216,263,000

MN SBA 504 Loans Approved

By Congressional Districts

1986 - 2008

	Loan Amount	Jobs Created	Job Retained
District 1	\$140,104,325	3,500	5,087
District 2	\$367,114,000	7,295	12,819
District 3	\$411,407,116	11,722	19,424
District 4	\$245,677,945	5,545	10,034
District 5	\$92,147,799	2,359	3,980
District 6	\$233,252,904	4,611	7,874
District 7	\$193,277,903	3,792	7,283
District 8	\$173,613,102	3,192	4,446
Unidentified	\$6,045,000	141	249

American Recovery and Reinvestment Act of 2009

- Signed into law by President Obama February 17, 2009
- Provides \$730 million to SBA and makes changes to the agency's lending and investment programs

\$730 Million to SBA

- \$375 million for temporary fee reductions or eliminations on SBA loans and increased SBA guaranteed shares
- \$255 million for a new loan program to help small businesses meet existing debt payments
- \$30 million for expanding SBA's Microloan program
- \$20 million for technology systems to streamline SBA's lending and oversight processes
- \$15 million for expanding SBA's Surety Bond Guarantee program
- \$25 million for staffing up to meet demands for new programs
- \$10 million for the Office of inspector general

504 Fee Reduction

- Temporary elimination of the bank participation fee (currently 0.5% of bank's permanent note)
- Temporary elimination of the CDC processing fee paid by the borrower (currently 1.5% of net debenture)
- Effective on loans approved by SBA on or after February 17, 2009.
- Expiration date is 9/30/2010 or when appropriated funds are exhausted

Effect of Fee Reduction

Project Examples

	<i>\$1,000,000 Project</i>	<i>\$4,000,000 Project</i>
Lender	\$500,000	\$2,000,000
SBA 504	\$400,000	\$1,600,000
Equity	\$100,000	\$400,000
CDC Processing Fee	\$6,000	\$24,000
Third Party Lender Fee	\$2,500	\$10,000
Total Fees Eliminated	\$8,500	\$34,000

Debt Refinancing

- Permissible debt refinancing: refinance via 504 of an amount not to exceed 50% of the projected cost of the project financed if...
 - The new loan involves expansion
 - It is collateralized by fixed assets
 - Existing debt incurred for benefit of small business
 - Proceeds used to acquire land, to construct or expand building or to purchase equipment
 - Borrower is current on all payments of existing debt for 1 year
 - New financing will provide better terms or interest rate;
 - New financing will be used only for refinancing existing debt, or for cost related to project being financed.
- Permanent amendment to the Small Business Investment Act.

Job Creation Goals

- Changes the Job Creation requirement
- Increases 1 job per \$50,000 to 1 job per \$65,000 in debenture amount.

Questions