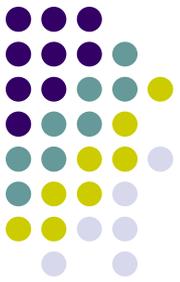


DEAL OR NO DEAL

2009 SBA Lenders Conference



**Mitigate Your
Risk and Grow
Your Loan
Portfolio with
the SBA 504
Program**

Which briefcase

.....will you choose??



- **CDC's Role in the SBA 504 Program**
- **Overview of the SBA 504 Program goals**
- **Eligibility Issues**
- **Types of SBA 504 Projects**
- **Benefits of the SBA 504 Program**
- **Structuring an SBA 504 Deal**
- **Economic Goals of the SBA 504 Program**





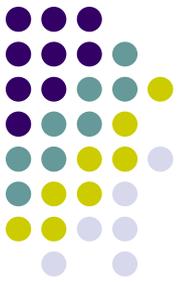
Which briefcase

.....will you choose??

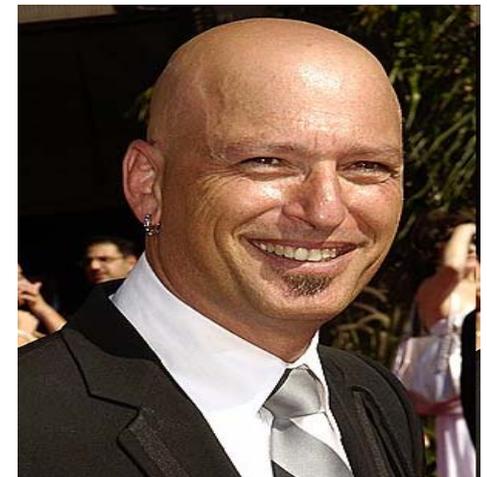
- **Secondary Market Opportunities**
- **How to “get it done”**
- **Stimulus Plan Benefits**
- **Best Practices**
- **Objections**
- **Success Stories**



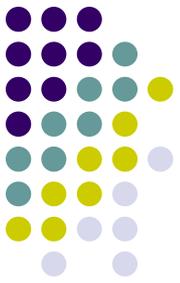
Michigan CDC's here to help you



- Michigan Certified Development Corp
- Oakland County Business Development Corp
- Economic Development Foundation Certified
- Lakeshore 504
- SEM ReSource Capital
- Metropolitan Growth

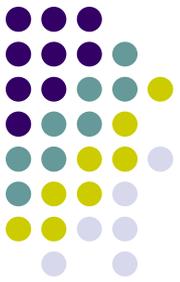


Your Michigan CDC's

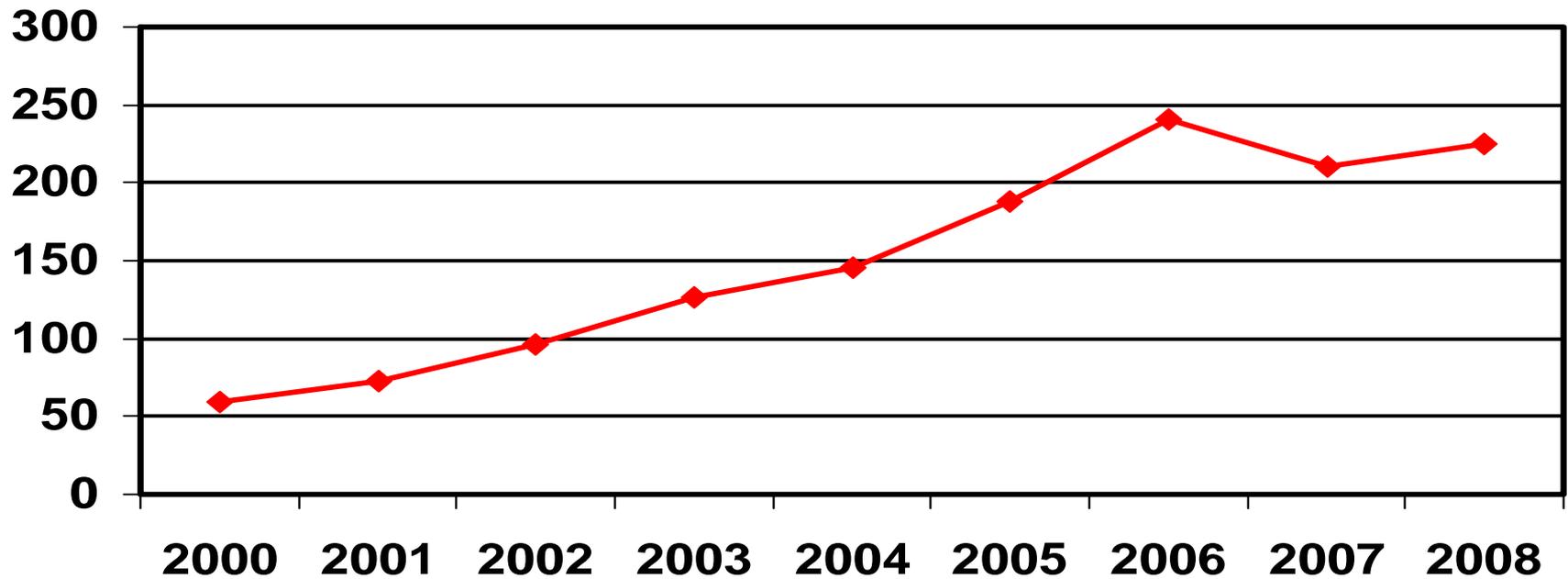


- **Six CDC's serve the state of Michigan**
- **All have local and statewide membership and boards of directors whose primary focus is to assist in the growth of small businesses to benefit our Michigan economy.**
- **All are certified by the SBA to market, fund, and service the SBA 504 loans in Michigan**
- **All SBA 504 loans carry the same rate, and terms regardless of CDC participation**

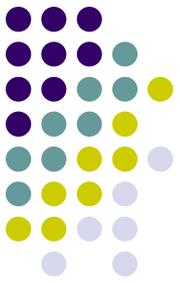
Deals are getting done!!



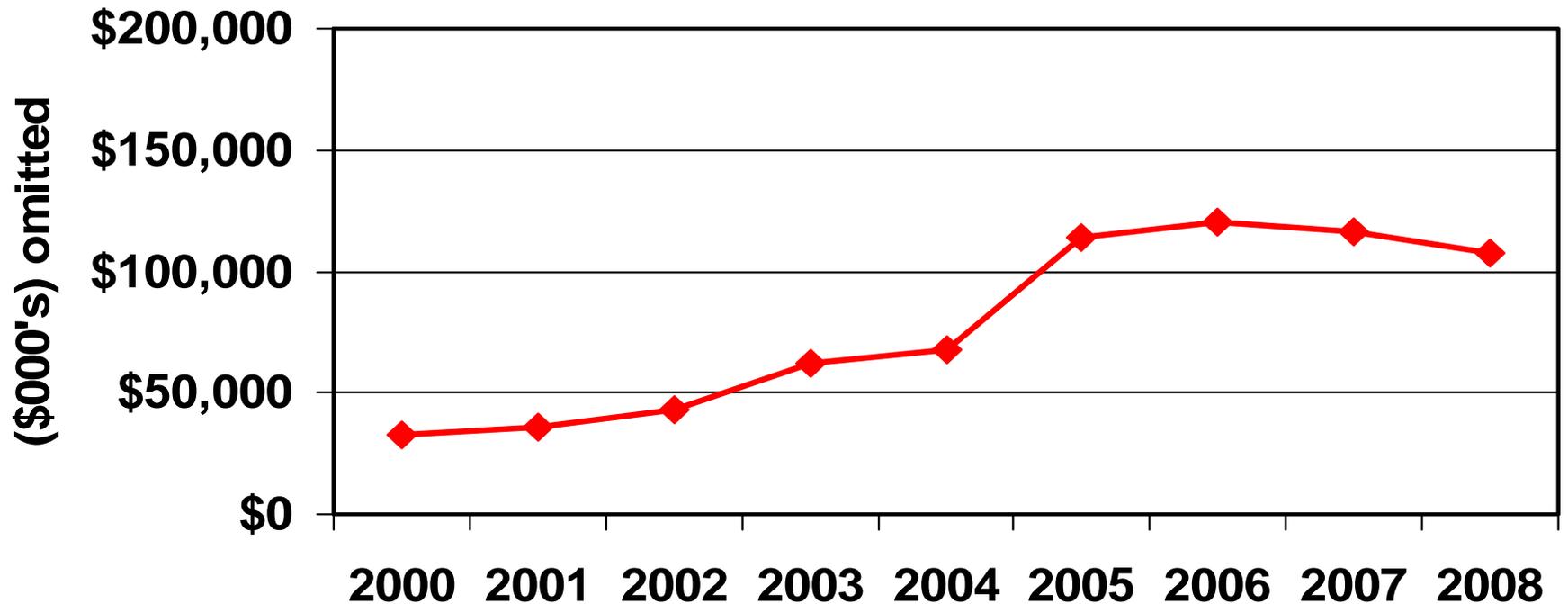
Unit # of SBA 504 Loans (Michigan)



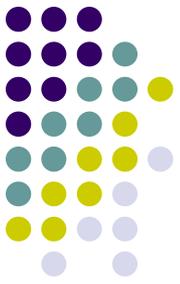
Deals are getting done!!



\$\$ Totals of SBA 504 Loans (Michigan)



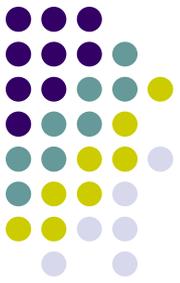
SBA 504 Loan Program Goals



- Loans are provided to expanding, small businesses
- Loans are guaranteed by the Small Business Administration (SBA)
- The ultimate goals are economic development and...
- Job creation!

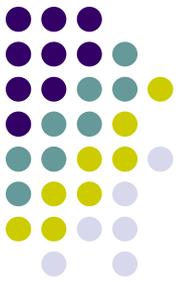


How Does it Happen??



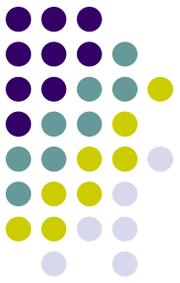
- **225 Projects in 43 Michigan Counties in 2008**
- **Loans are pooled monthly across the country**
 - **Over \$5 BILLION last year!!**
- **SBA adds their guaranty**
- **Guaranteed loans sold to long term investors**
- **Proceeds pay off banks**

Objection: Funding Risk



- **Less than .5% of SBA 504 loans fail to fund upon completion**
 - **Borrower chooses alternative financing**
 - **Project never gets off the ground**
 - **Project refinanced during construction**
 - **Adverse change in financial condition**

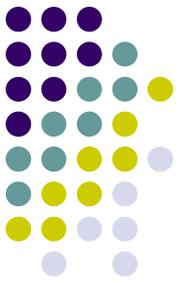
Funding Risk Mitigants



- **Additional guarantor during construction**
- **Additional collateral during construction**
- **Consider an interim lender**
 - **CDC's are not permitted to act as the interim lender**
 - **Most CDC's have sources that will provide interim loans..... It's not cheap but it is available, touch base with your CDC to find the sources**

Eligibility

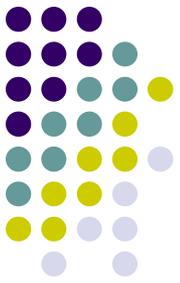
What types of business



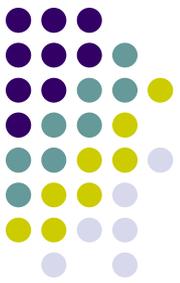
- **For Profit Businesses**
- **Must be considered “Small”**
 - **\$8,500,000 maximum for net worth**
 - **\$3,000,000 maximum for net profit**
- **Virtually all NAICS codes eligible, call your CDC contact for specifics**

Eligibility

What types of projects

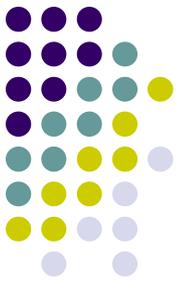


- **Owner Occupied Real Estate**
 - Occupy 51% of existing building
 - Occupy 60% of new building
- **Machinery and Equipment**
 - **New and Used!!**
- **All Projects must involve NEW \$\$**
 - **Some refinancing may be eligible under the new stimulus package benefits**



Refinancing Requirements

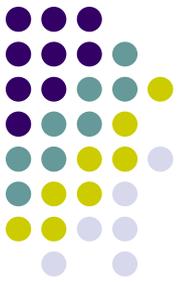
- **Permissible up to 50% of project cost**
- **Must involve some expansion**
- **Must be fully secured by fixed assets**
- **Borrower must be current on all existing bank debt (previous 12 months)**
- **Refinancing must provide improved terms or reduced rate**



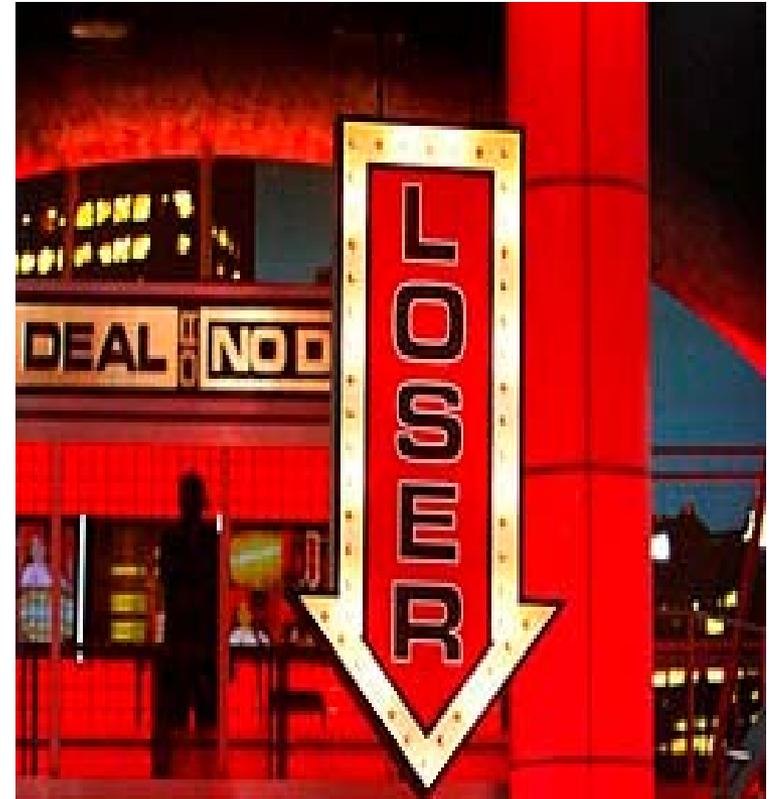
Refinancing Example

- Existing Real Estate appraises at \$2,500,000
- Underlying Debt of \$600,000
- Expansion of \$1,000,000
- Project becomes \$1,500,000 (expansion plus 50% of expansion amount eligible for refinance)
- Existing business eligible for 50/40/10 structure.
- Likely a \$0 cash equity requirement due to appraised value

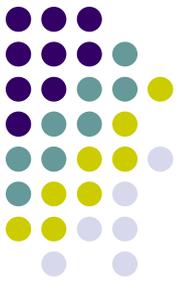
What is NOT eligible....



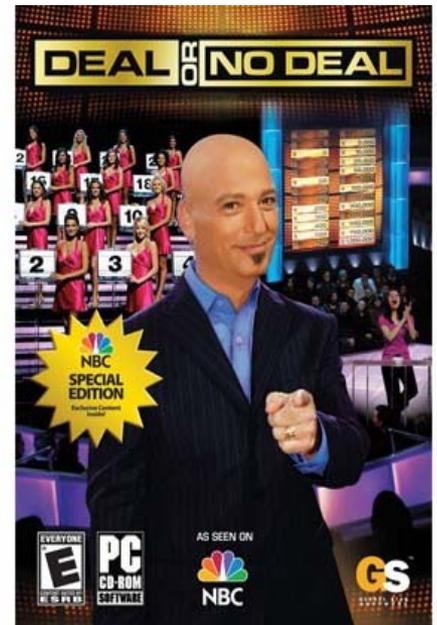
- End loan fees
- Working Capital
- Start Up costs
- Franchise Fees
- Mortgage Broker Fees
- Most Intangibles
- Bad loans



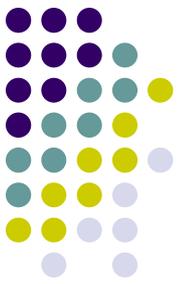
Examples of Eligible Projects



- Purchase of land and construction of building
- Purchase of an existing building
- Leasehold improvements
- Renovating or Adding on to a building
- Purchase of machinery and equipment
- Soft costs related to above projects



Top Users of the SBA 504 FY 2006

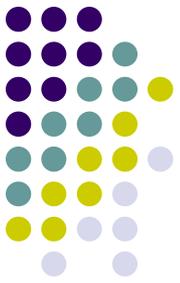


- Hotels and Motels
- Full Service Restaurants
- Physicians' Offices
- Dental Offices
- Gasoline Stations w/C Stores
- Child Day Care Services
- Limited Service Restaurants
- Car Washes
- General Auto Repair
- Attorney's Offices



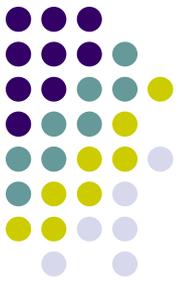
Key Borrower Benefits

In Every Case

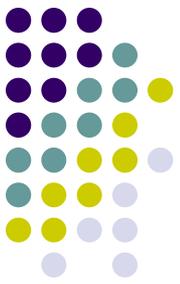


- **Opportunity for reduced borrower equity**
- **Extended financing terms**
- **Below market fixed rate 10-20 Years!!**

Key Bank Benefits *In Every Case*



- **Mitigate Collateral Risk**
 - **SBA is subordinated to the Bank**
- **Be able to offer customer low equity and low fixed rates**
- **Participate in projects you would otherwise have to “pass” on.**
- **CRA Credits**
- **Ready market for sale of 1st position**



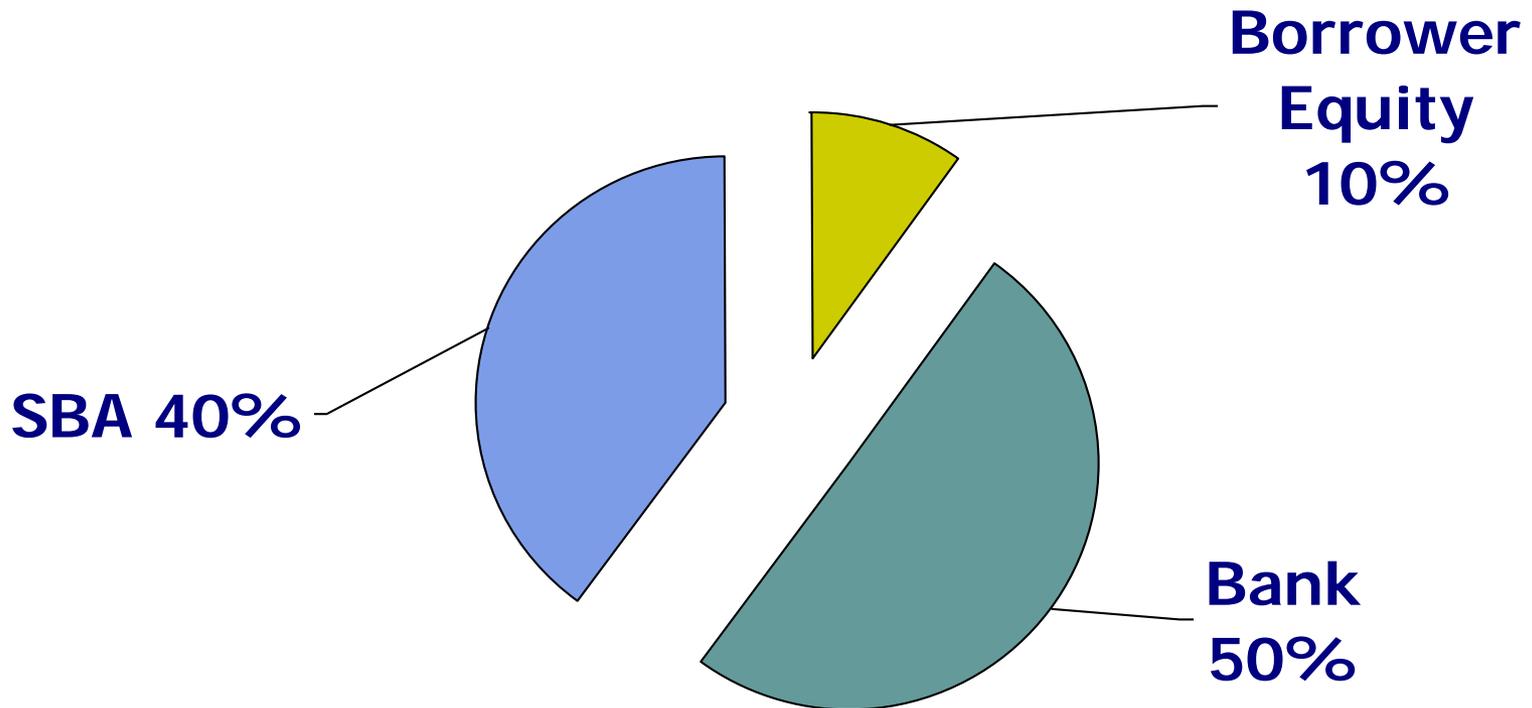
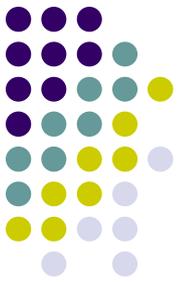
Key Structure Components

- Equity
- Terms
- Rate



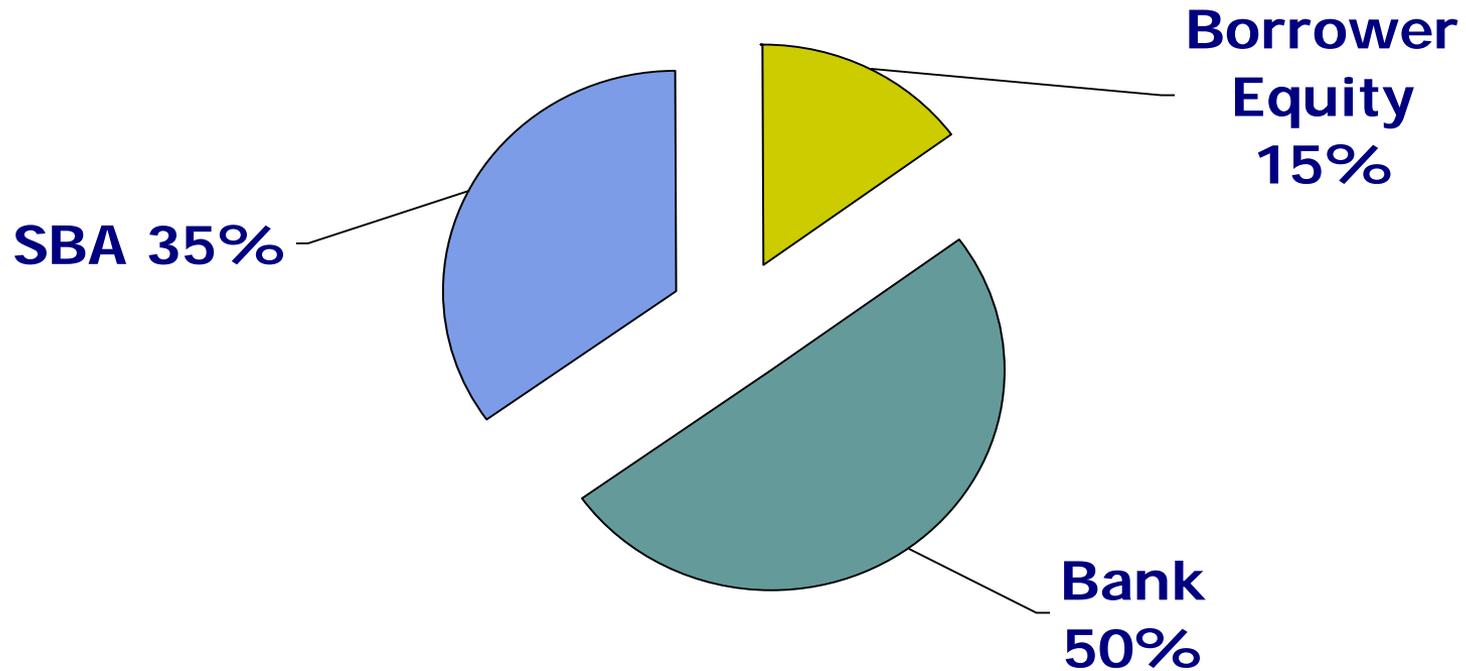
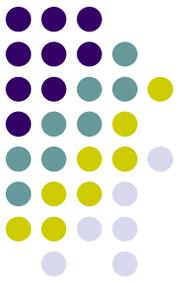
Key Program Benefits

Traditional 10% Equity



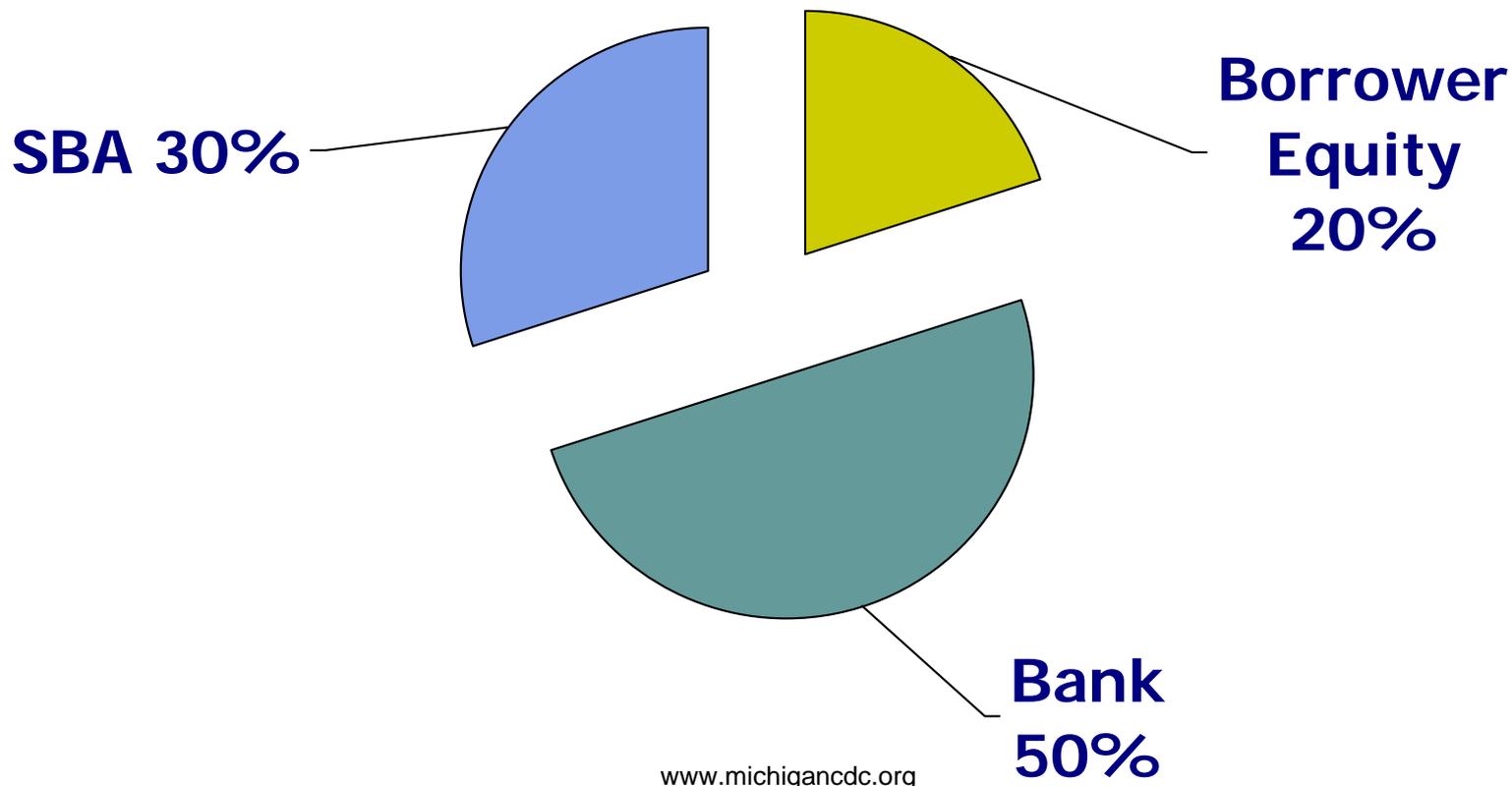
Let's See the Dollars and Cents...

.....*New business* OR
.....*Single Purpose Real Estate*



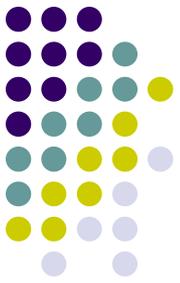
Let's See the Dollars and Cents...

....*New business* AND
....*Single Purpose Real Estate*



Equity

A variety of sources



- **Cash**
- **Owned land**
- **Existing equity in plant and equipment**
- **Grants**
- **Retirement Assets**
- **Seller Debt**
- **Bank Debt**

Structure

Key Terms and conditions



Bank

Senior Debt

10 year term (R/E)

7 year term (M&E)

Rate Negotiable

All other terms and conditions at discretion of Bank

SBA

Subordinate to Bank

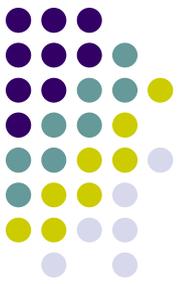
20 year term (R/E)

10 year term (M&E)

Fixed Rate for term

Prepayment Premium

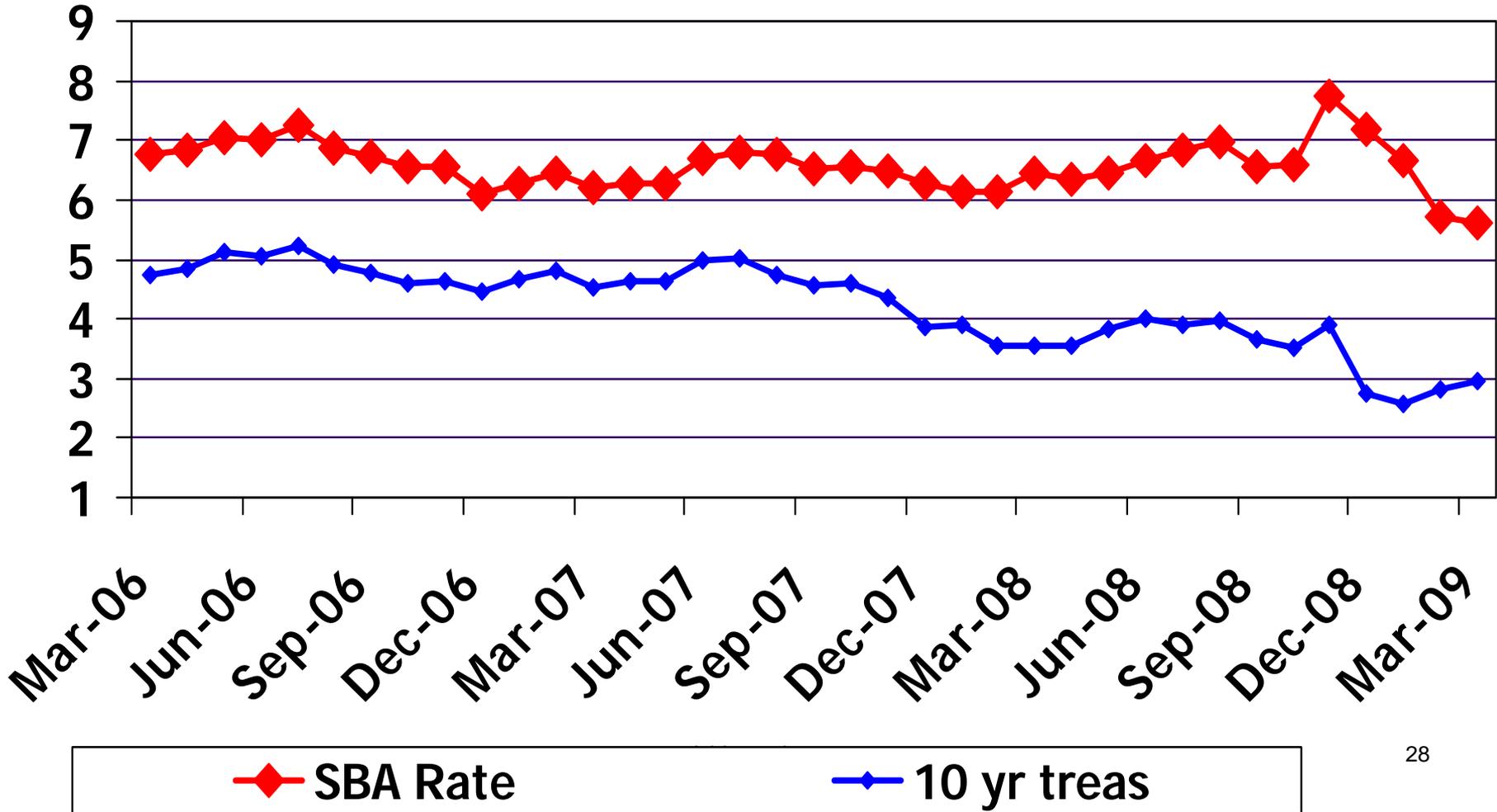
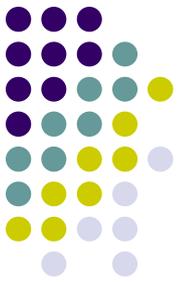
The phone call from “The Banker” *SBA Participation Caps*



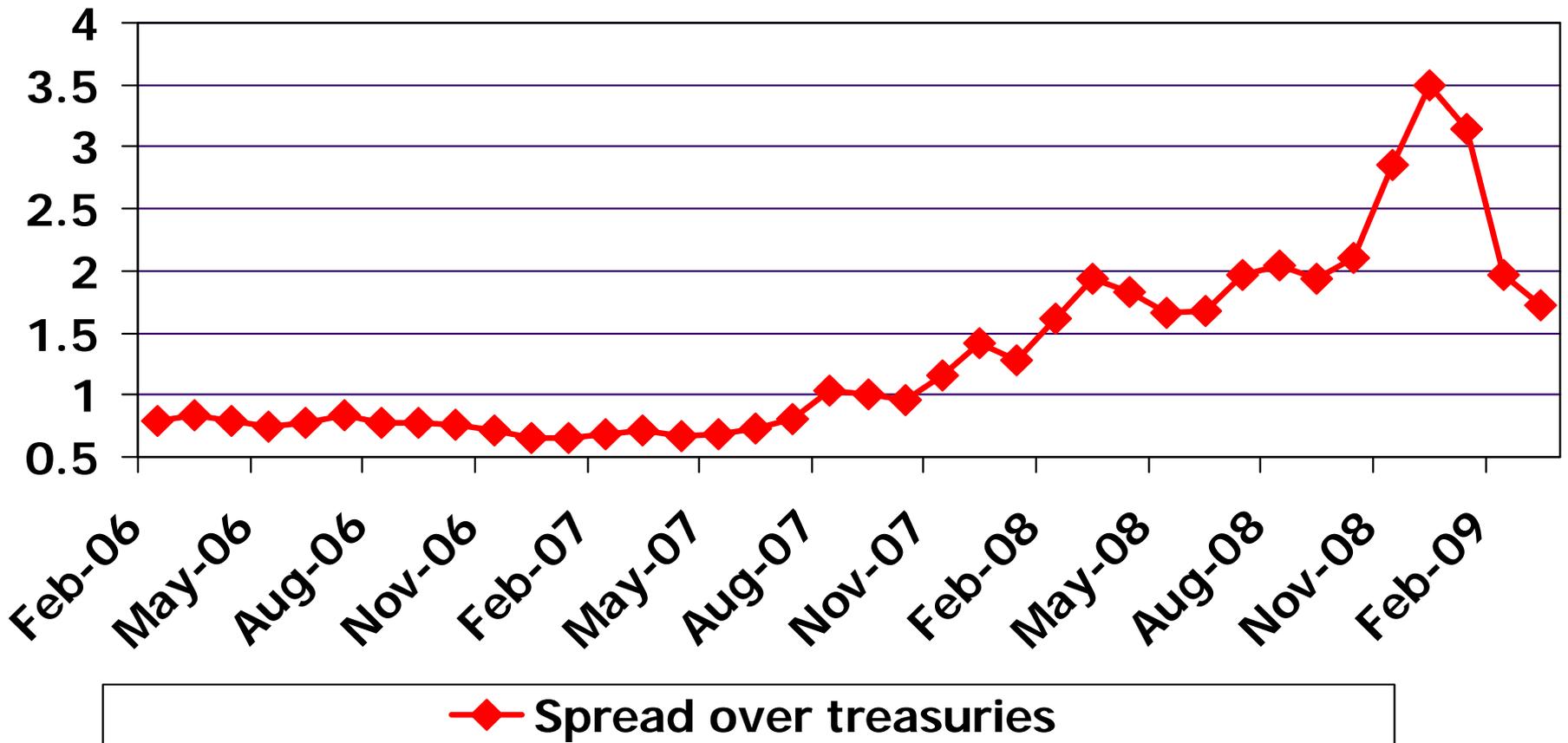
- **\$1,500,000** general rule
- **\$2,000,000** public policy goal
- **\$4,000,000**
 - *-Small Manufacturing*
 - *NAICS 31,32,33*



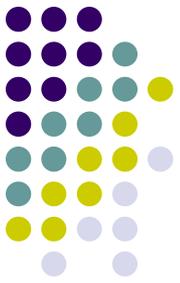
Rate History



Credit Spreads reflect general economic concerns



Ongoing SBA Fees Decline



SBA 504 Loan Program Fees



- **** A one-time up-front fee paid by the bank equal to 1/2% of the bank's end loan.**
- **** A one-time processing fee of approximately 2.15% of the SBA's portion of the loan.**
- **Legal fees of approximately \$2,500.**
- **The above processing and legal fees are financed in the SBA loan.**
- **An ongoing servicing fee is included in effective full-term rate.**
- **** Fees temporarily reduced with the stimulus package, bank fee eliminated, processing fees subsidized by the SBA up to 1.5% of the loan amount.**

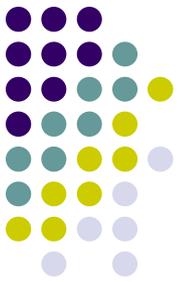
Economic Goals of the SBA 504



- ***Job Creation or Retention***
 - 1 job for every \$65,000 of SBA 504 funds
 - 1 job for every \$100,000 for manufacturing projects

- ***Community Development Goals***
 - ex. Labor surplus area, Improving, diversifying or stabilizing the local economy, bringing new income into a community, etc.

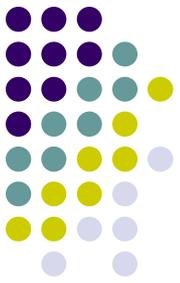
Economic Goals of the SBA 504



- ***Public Policy Goals***
 - **Business district revitalization**
 - **Brownfield/
Renaissance Zone**
 - **Rural Development**
 - **Woman-owned**
 - **Minority-owned**
 - **Veteran-owned**
 - **Energy Efficiency**

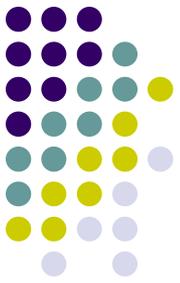


Secondary Market Opportunities



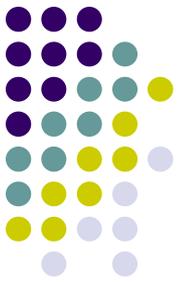
- **Similar structure to traditional 504 deals**
- **First position is sold to secondary market**
- **Bank collects fee for sale, moves on to next deal**

Secondary Market Benefits



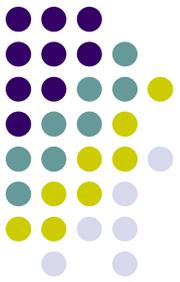
- **Fees can be lucrative**
- **Can mitigate certain collateral risk**
- **Can address lending limit issues**
- **Can provide an avenue for non traditional deals**

Let's Get This Done



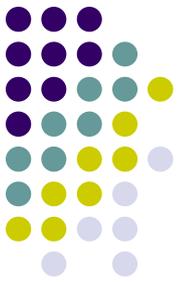
- **Bank's write-up/analysis**
- **Commitment from Bank to do end financing and interim loan**
- **Reason why SBA 504 is necessary**

Let's Get This Done



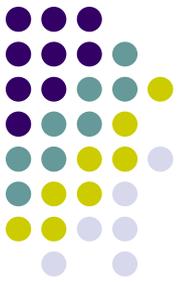
- **Cash Flow**
- **Collateral**
- **Economic Development Goal**

Think SBA 504 on any capital asset project ...



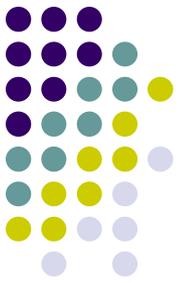
- Think long term financing
- Think low down payment
- Think mitigated collateral risk
- Whichever briefcase you choose...
- Call your CDC Today!!





Best Practices

- Include 504 option in all term sheets
- Touch base with your CDC early in the process to work out the best structure for all
- If you are concerned about funding risk....
Talk about options with your CDC

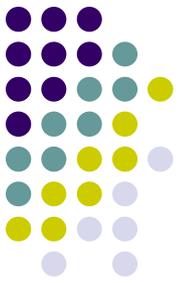


LET'S
SEE
SOME
REAL
PROJECTS



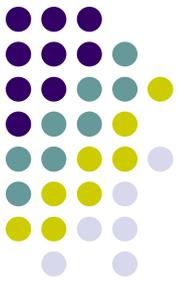
MCDC

Café Habana



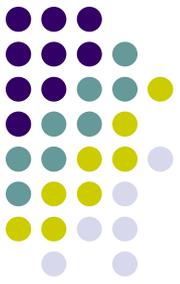
- **Michigan CDC partnering with United Structured Finance**
- **New restaurant with very experienced owners/guarantors**
- **Total Project Size \$4,000,000+**
- **60 new jobs created**

MCDC Café Habana



SEM ReSource Capital

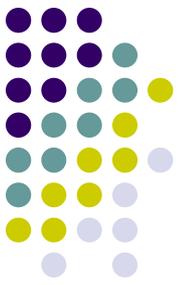
Magic Window Company



- **Total Project Cost:
\$2,420,000**
- **Partner with GE Capital**

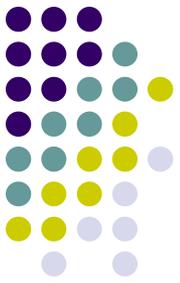
Economic Development Foundation Certified

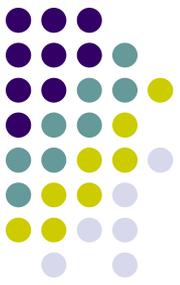
Animal Neurology & MRI Center



- **Economic Development Foundation Certified partnering with mBank**
- **Real Estate and Equipment financed in this project**
- **Total Project Size \$3,230,000**
- **8 new jobs created**

Animal Neurology & MRI Center





Colosanti

- **Project in Highland Michigan**
- **Project total \$2,900,000**
- **Public Policy goal of rural development met**



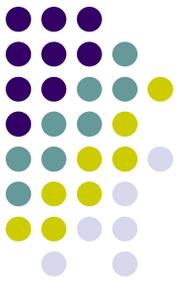
Lakeshore 504



Franks Market Meats

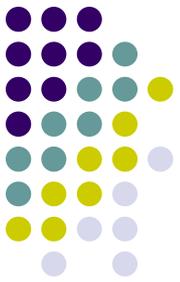
- Project located in Grand Haven
- Total project size \$720,000
- Partner with 5/3 Bank
- 10 jobs created and retained as a result of the project
- Redevelopment in East Town, are targeted for redevelopment.

Franks Market Meats



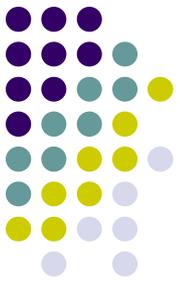
MCDC

Mitchell Graphics



- **Michigan Certified Development Corp partnering with The Bank of Northern Michigan**
- **Equipment Only transaction, no real estate involved**
- **Rural Project fulfills a Public Policy goal with this business expansion**
- **Total Project Size \$1,562,717**
- **47 jobs impacted with this expansion.**

Mitchell Graphics



Time for Door Prizes

Yea!!!!!!

