

2018

SBA 504 LOAN

Things borrowers should know and understand

DISCLOSURE

2018

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STRAIGHT TALK

The only way to do business

You are the client

WHAT IS AN SBA 504 LOAN?

How does it benefit You?

**SBA 504 LOANS ARE A LOAN
USED FOR PURCHASING OR
REFINANCING REAL ESTATE
USED BY A SMALL BUSINESS**



WHY DOES IT MATTER TO YOU?

What borrowers need to know.

WHY SBA 504 MATTERS TO YOU?

SBA 504 LOANS ALLOW THE BORROWER TO USE THE ONE OF HIGHEST LEVERAGE TO PURCHASE REAL ESTATE ASSETS

10% down for regular purpose: 90% Loan to Value

15% down for new business purpose: 85% Loan to Value

20% down for special purpose: 80% Loan to Value

Special Purpose Properties:

Car Wash

Gas Stations

Hotels & Motels

Marinas

Farms

Others*

*Amusement parks, bowling alleys, cemeteries, cold storage, golf courses, hospitals, mines, oil wells, sanitary landfills, sports arenas, tennis clubs, theaters and wineries.



WHY SBA 504 MATTERS TO YOU?

SBA 504 LOANS ARE BASED ON CASH FLOW OF THE SUBJECT PROPERTY

Which means, the subject project has to cash flow. 1.25x Debt Service Coverage

Unlike other loans in which if the subject project does not cash flow, the lender will take additional collateral, that is not the case of SBA 504. Exceptions can be made.

SBA 504 LOAN CAN TAKE ADDITIONAL COLLATERAL

Yes, but it will be part of the project used for cash flow. It will be very difficult to remove the collateral because you would need the approval of SBA and the bank. So if you want to sell the other property that is part of the project, you will need the approval of SBA and the bank. Buyer can always assume the SBA 504 portion.



PURCHASE STRATEGY FOR YOU

Scenario:

Purchase Price: \$10,000,000

Type of Property: Hotel - special use

Down Payment (Equity) 20%: \$2,000,000

Bank Loan: 50% Loan to Value (First Lien Position): \$5,000,000

SBA 504 Loan: 30% Loan to Value (Second Lien Position): \$3,000,000

Two loan payments for the borrower



WHY DOES IT MATTER TO YOU?

Benefit of Purchase:

Trump Tax Cuts for Small Business Real Estate Buyer:

1. Cost Segregation Depreciation
2. Section 179 Deduction for Small Business

Example: Purchase \$10MM hotel Depreciation: \$2.8MM (estimate)

Net Operating Loss has changed with the new tax cuts for small business owners.



PURCHASE STRATEGIES FOR YOU

Example:

Law Firm decides to buy a building:

Purchase Price: \$2MM

Estimated Depreciation using cost segregation: \$560K (estimate)

Borrower benefit by buying real estate assets while at the same time using the depreciation benefit to offset income taxes. Use SBA to grow your business and have appreciable fixed assets.



2018

REFINANCE OPTIONS

Two Options

**EXISTING SBA
504 BORROWER
CAN REFINANCE
THE BANK LOAN**

**CONVENTIONAL
LOAN WITHOUT
SBA OR USDA
GUARANTEE**

SBA 504 REFINANCE OPTION 1

1

IF YOU HAVE A SBA 504 LOAN CURRENTLY

You can always go to another bank for refinance the First Lien Loan to get a better rate; [or] call the SBA to re-subordinate the second lien. SBA portion of the loan is assumable.



SBA 504 REFINANCE OPTION 2

1

IF YOU HAVE A REGULAR LOAN WITHOUT SBA OR USDA

- You can request a refinance and cash out



SBA 504 REFINANCE HIGHLIGHTS

Refinance became law in 2016 with updates made on June 6, 2018



- **2 YEAR RULE ELIMINATED**
- **(EBE) ELIGIBLE BUSINESS EXPENSE - 85% LTV AND 20% OF FMV**

Incurred and not paid

Itemized as expenses

Capital assets on balance sheet not qualified

SBA will request proof of use

STRATEGIES USE FOR YOU

Subject Property: Hotel

Fair Market Value: \$7,000,000

Existing Loan: \$5,000,000

Remainder Term: 1 year left and 19 years amortization left

Eligible Business Expense: \$950,000 potential cash out (must be QBE)

Prepays, wages, credit cards (business only), utilities, insurance, wages, inventory, franchise fees and other qualified business expense which will be incurred in 18 months

“This will help small business weather the storm of rising interest environment.”





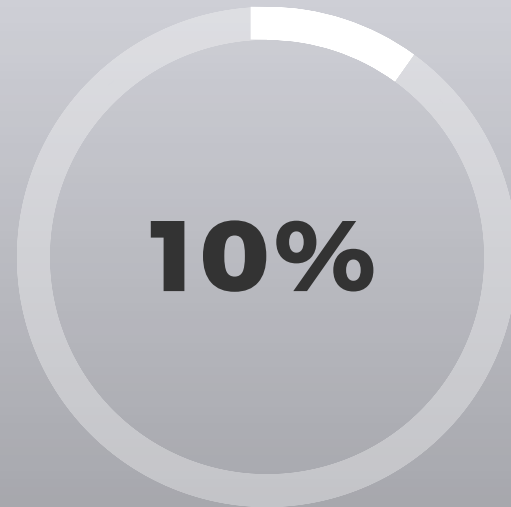
How many SBA 504 loans can you receive?

SBA GREEN 504 LOANS

Increase your number of SBA 504 Loans with an aggregate amount of \$16,500,000

SBA 504 GREEN

Way to use multiple SBA 504 loans for your growth



10%

**10% ENERGY
SAVINGS**

Available for improvement
to an existing or
replacement property.



10%

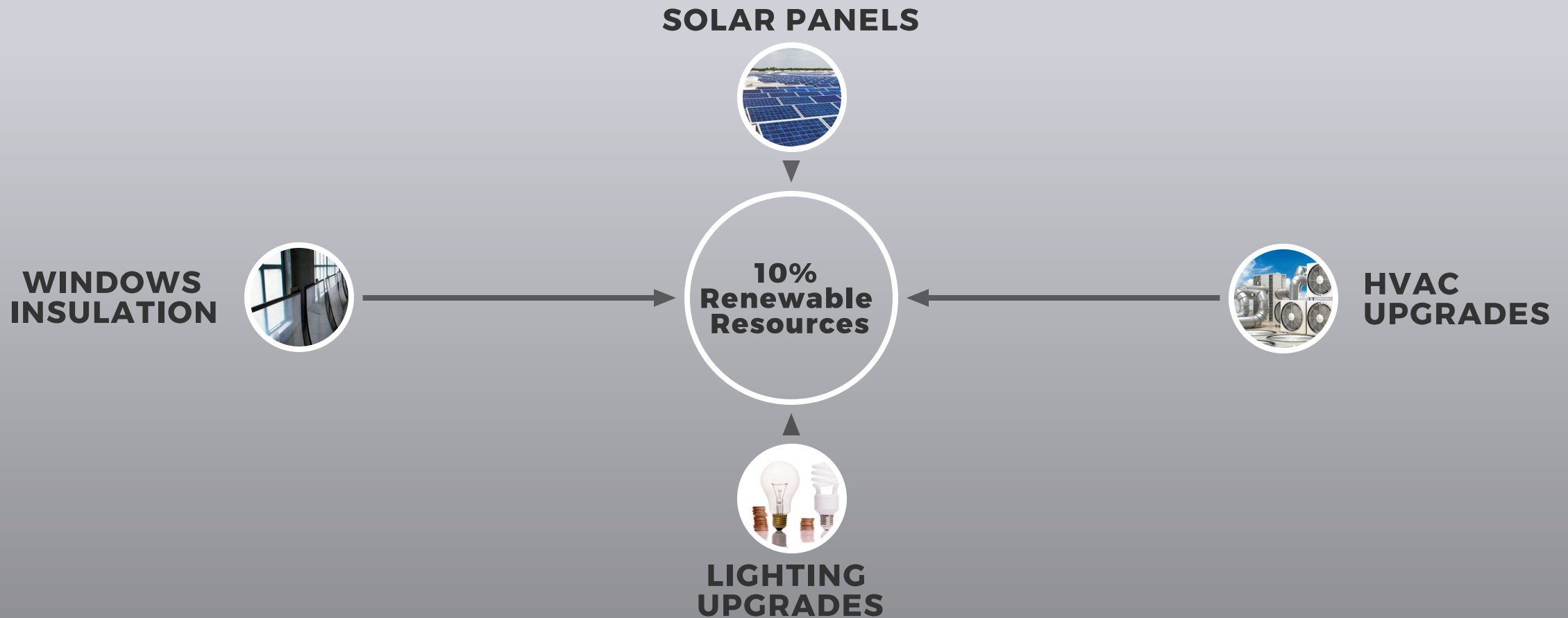
**10% PRODUCTION
OF ENERGY FROM
RENEWABLE
SOURCES**

4 popular methods*.

*next slide

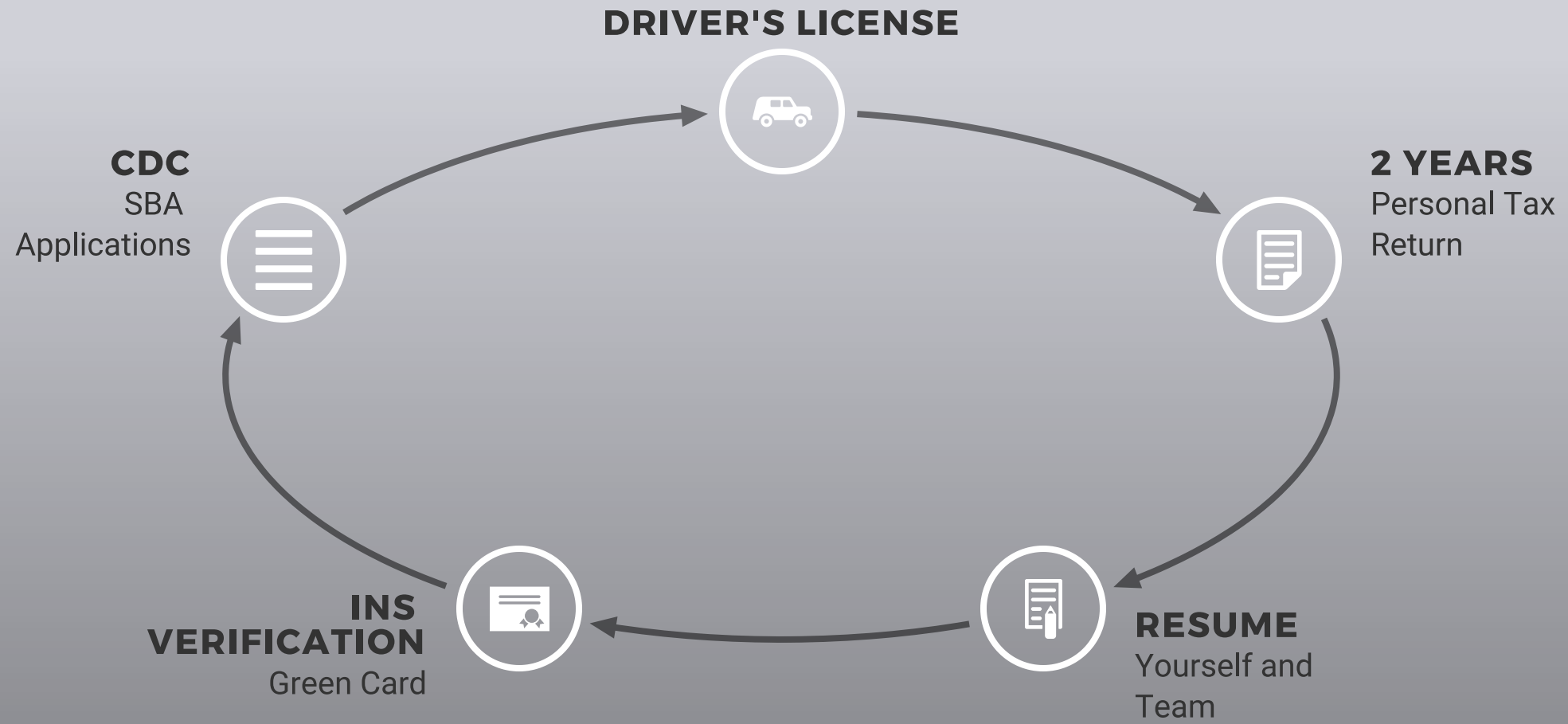


SBA 504 GREEN

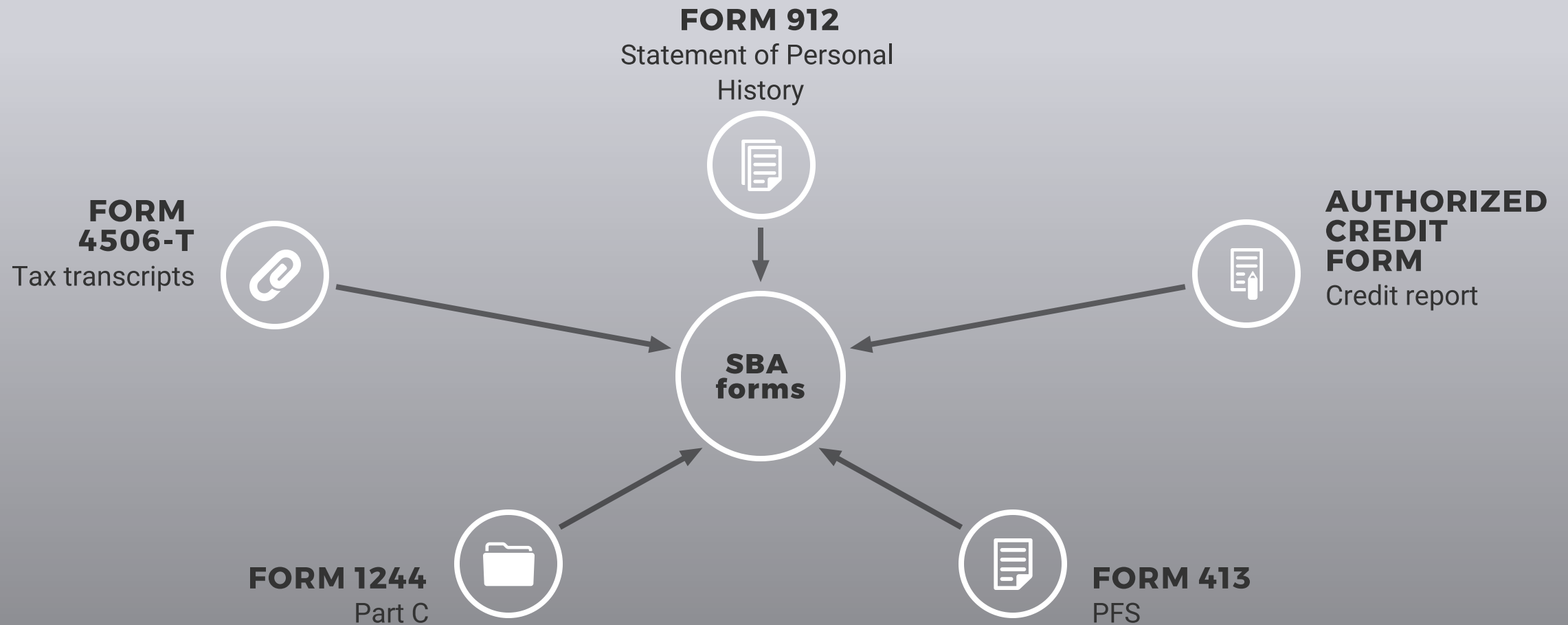


ITEMS NEEDED FOR THE LOAN

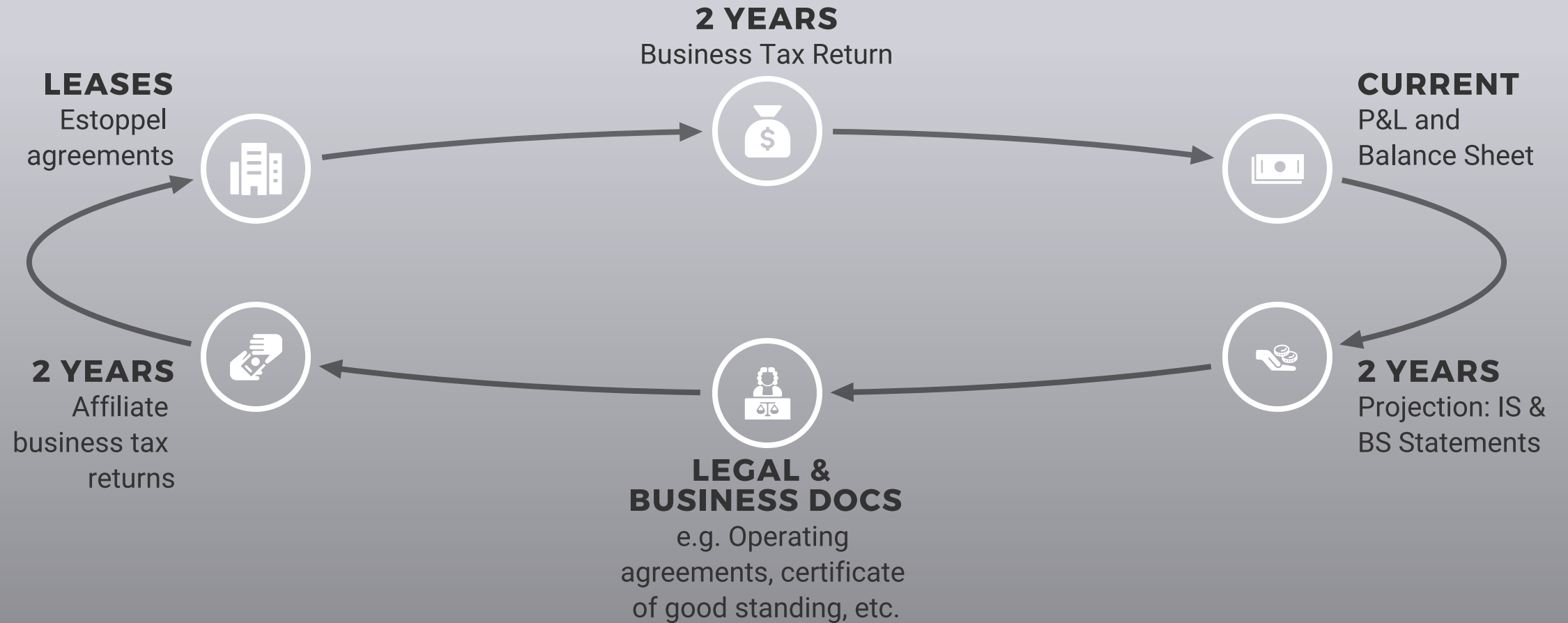
SBA 504 DOCUMENTS



SBA 504 DOCUMENTS



BUSINESS DOCUMENTS



LOAN STRUCTURE



THE BANK LOAN

50% of the project
First Lien Position



SBA 504 LOAN

40% to 30% of the project
Second Lien Position



DOWN PAYMENT/EQUITY

10% for General Purpose
20% for Special Purpose

SBA 504 LOAN IS LONG-TERM LOAN

Prepayment is confusing

DECLINING PREPAY FEE

- 10,9,8,7,6,5,4,3,2,1 Years declining by 10% each year
- Calculations for prepay:
- $\text{Penalty} = \text{Principal Balance} \times (\text{Interest Rate on the face of the bond-usually in decimal points}) \times \text{factors set forth each applicable year.}$

6 MONTHS RESERVE FEE

- Borrowers is expected to pay 6 months of additional interest depending upon when you closed your SBA 504 loan.

LOAN IS ASSUMABLE

- Loan is assumable for qualified borrower
- 1% assumption fee of the balance





AFTER THE LOAN HAS CLOSED

What is expected?

SBA 504 PAYMENT

BANK LOAN

ACH is required

Banks Servicing Agent

Banks can service their own loans

Request information on their servicing

SBA LOAN (CDC)

Community Development Company (CDC) represents SBA 504.

ACH is required

Wells Fargo is the CSA (central servicing agent) -
Payment goes to the following mailing address:

PricewaterhouseCooper Public Sector LLP.

c/o Wells Fargo

Corporate Trust Services - SBA 504 Program Team

9062 Old Annapolis Road

Columbia, MD 21045-1951



FINANCIAL REPORTING REQUIREMENT

Financial covenants requirement of the loan agreement.

Paul's Plumbing Co. PROFIT AND LOSS January 1 - September 29, 2016	
	TOTAL
Income	
Sales	2,234.00
Services	4,025.00
Total Income	\$6,259.00
Cost of Goods Sold	
Cost of Goods Sold	750.00
Supplies & Materials - COGS	1,000.00
Total Cost of Goods Sold	\$1,750.00
Gross Profit	\$4,509.00
Expenses	
Advertising	8.47
Bank Charges	50.00
Job Materials	2,750.00
Total Expenses	\$2,808.47
Net Operating Income	\$1,700.53
Other Income	
Other Income	500.00
Total Other Income	\$500.00
Net Other Income	\$500.00
Net Income	\$2,200.53

INCOME STATEMENT

Paul's Plumbing Co. BALANCE SHEET As of September 29, 2016	
	TOTAL
ASSETS	
Current Assets	
Bank Accounts	
Bank of America Checking	3,076.72
Bank of America Checking, 9876	4,050.00
Bank of America Checking, x6789	4,000.00
Bank of America Savings, x5643	2,250.00
Petty Cash	175.00
Wells Fargo Checking, 1234	375.00
Total Bank Accounts	\$13,926.72
Other current assets	
Inventory Asset	2,000.00
Undeposited Funds	2,050.00
Total Other current assets	\$4,050.00
Total Current Assets	\$17,976.72
TOTAL ASSETS	\$17,976.72
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Credit Cards	
Bank of America Visa, x7421	4,100.00
Wells Fargo Credit Card	7,220.20
Total Credit Cards	\$11,320.20
Total Current Liabilities	\$11,320.20
Total Liabilities	\$11,320.20
Equity	
Opening Balance Equity	3,955.99
Retained Earnings	
Net Income	2,700.53
Total Equity	\$6,656.52
TOTAL LIABILITIES AND EQUITY	\$17,976.72

BALANCE SHEET

Paul's Plumbing A/P AGING SUMMARY As of September 30, 2016						
	CURRENT	1 - 30	31 - 60	61 - 90	91 AND OVER	TOTAL
Brosnahan Insurance Agency		241.23				\$241.23
Diego's Road Warrior Bodyshop	755.00					\$755.00
Norton Lumber and Building Mat...		205.00				\$205.00
PG&E			86.44			\$86.44
Robertson & Associates		315.00				\$315.00
TOTAL	\$755.00	\$761.23	\$86.44	\$0.00	\$0.00	\$1,602.67

AP AGING REPORT

Paul's Plumbing A/R AGING SUMMARY As of September 30, 2016						
	CURRENT	1 - 30	31 - 60	61 - 90	91 AND OVER	TOTAL
Amy's Bird Sanctuary		239.00				\$239.00
Bill's Windsurf Shop			85.00			\$85.00
Freeman Sporting Goods	477.50	4.00	81.00			\$562.50
Geeta Kalapatapu	609.10					\$609.10
Jeff's Jalopies		81.00				\$81.00
John Melton		450.00				\$450.00
Kookies by Kathy			75.00			\$75.00
Mark Cho	314.28					\$314.28
Paulsen Medical Supplies	954.75					\$954.75
Red Rock Diner	70.00			156.00		\$226.00
Rondonuwu Fruit and Vegi	78.60					\$78.60
Shara Barnett		274.50				\$274.50
Sonnenstein Family Store	362.07					\$362.07
Sushi by Katsuyuki	80.00	80.00				\$160.00
Travis Waldron	414.72					\$414.72
Weiskopf Consulting	375.00					\$375.00
TOTAL	\$3,756.02	\$1,128.50	\$241.00	\$156.00	\$0.00	\$5,281.52

AR AGING REPORT

SBA 504 LOANS

STRENGTHS

- High Leverage
- Long-term loan
- Can have multiple SBA loans
- Vehicle to grow

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WEAKNESSES

- Two lenders
- Slow process
- Too many turnovers
- Few experts in the industry

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OPPORTUNITIES

- Many Lenders: Banks, Credit Union, Non-Bank Lenders
- Many Community Development Company (CDC) SBA 504 Lenders

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THREATS

- Too many regulations
- Too much paperwork
- Max 16.5MM - Capped
- CDC's Real Estate portfolio concentration problems



CH CAPITAL PARTNERS, LLC.

Our Team



**KELLEE
CORDELL-GALBRAITH**

Managing Director
CEO & MBA



MATS NORDGREN

Managing Director
CTO



SOK CORDELL

Managing Director
CSO



CHRIS A. ADAMS

Managing Principal
Esq.



The American Dream

LET'S GROW

Changing the conversation
CH Capital Partners, LLC.