



SBA 504 Lender Loan Reference Guide

Required Business Information:

- ISCDC 504 Application- (Business Plan if available)
- Business Year-end Financials for 2 prior years (signed)
- Business Year-to-Date Financials (current within 120 days, signed)
- Aging of Accounts Receivable and Payable (consistent with YTD financials)
- Business Debt Schedule* (consistent with YTD financials)
- Federal Tax Returns for 2 prior years (signed)
- Previous Government Financing History*
- Annualized Projected Income Statement- With assumptions defined
- IRS form 4506-T* – Only signed by borrower (we will complete the form)
- SBA 1244 Part C* – Signed by all guaranteeing parties
- Corporate Documents (if available)

Borrower Personal Information: (for each individual with 20% or greater ownership)

- SBA Form 413* – Personal Financial Statement (current within 90 days, signed by Husband & Wife)
- Personal Federal Tax Return for 1 prior year (signed)
- SBA Form 912* - Personal History Statement
- Resume' of Owners; Principal; and Managers

Project Cost Documentation:

- Executed Purchase Agreement
- Contractor Cost Estimates
- Vendor quotes for machinery and equipment
- Appraisal – ordered by bank (see appraisal requirements)
- Environmental- ordered by bank (see environmental requirements)

Other Needed Documentation:

- Affiliate Financial Statement (Federal Returns for 2 years prior, signed)
- Franchise Documentation- Franchise Agreement, FTC Disclosure Statement (other information may be required upon review)
- Bank's Credit Memo/ Credit Approval
- Lender Credit Not Available form* stating reasoning for using the 504 program
- Other _____

Application Deposit:

- Application Deposit: Check for \$1,000 payable to ISCDC
- Application Agreement form *

* Forms included in borrower application package and online



WHAT IS THE 504 PROGRAM?

Co-Lender financing designed to facilitate the acquisition of fixed assets for small businesses.

WHO CAN QUALIFY?

- ✓ Most for-profit, owner-occupied small businesses in the U.S.
- ✓ Net worth less than \$15.0 million
- ✓ Net profit after tax (2 year average) of no more than \$5.0 million (including affiliates)

ELIGIBLE USE OF FUNDS

- ✓ Land
- ✓ Acquisition of Existing Building
- ✓ New Construction
- ✓ Fixed Assets from Business Acquisition
- ✓ Building Expansion/Renovation
- ✓ Long-Term Equipment
- ✓ Professional Fees
- ✓ Lender's Interim Points & Interest
- ✓ Debt Refinance (Expansion Projects – debt refi may not exceed 50% of the new expansion costs)



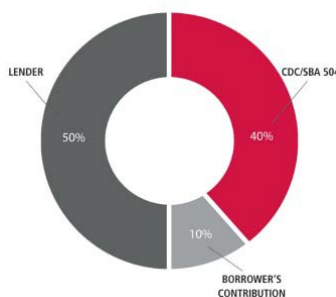
INELIGIBLE USE OF FUNDS

- ✓ Working Capital
- ✓ Inventory
- ✓ Goodwill Assets from Business Acquisition
- ✓ Franchise Fees
- ✓ Tenant Improvements

OCCUPANCY

- ✓ 51% for Existing Facilities /Buildings (renovations and expansions are eligible)
- ✓ 60% for Ground-Up Construction Projects (must occupy 80% within ten years)

PROJECT STRUCTURE*



*typical structure, injection requirement increases with NEW & Special Purpose Projects

INTEREST RATE AND TERMS

- ✓ Fixed-Rate - based on Treasury Rates
- ✓ Fully-Amortized over life of loan (No Balloon)
- ✓ Real Estate - 20-year term
- ✓ Machinery & Equipment – 10 - year term
- ✓ Rate “locks-in” when the SBA funds the debenture

MAXIMUM LOAN (SBA PORTION)

- ✓ \$5.0 million (Typical Project)
- ✓ \$5.5 million (Manufacturers)
- ✓ \$5.5 million (if certain Energy Public Policy Goals are met)
- ✓ No Maximum Limit placed on participating lender's loan portion

BORROWER'S INJECTION

- ✓ 10% in most cases
- ✓ 15% for Start-Up Businesses (less than two years in operation) or Special-Purpose Properties
- ✓ 20% if the project is both a Start-Up and Special-Purpose Property
- ✓ Equipment-Only loans may qualify with 10% or 15% injections

JOB CREATION/RETENTION

- ✓ One job for every \$65,000 of the debenture (for most projects)
- ✓ One job for every \$100,000 of the debenture (for manufacturers)
- ✓ Projects are excluded from the job requirement if a Public Policy Goal is fulfilled

General Information & Requirements



Appraisal Requirements & Helpful Tips

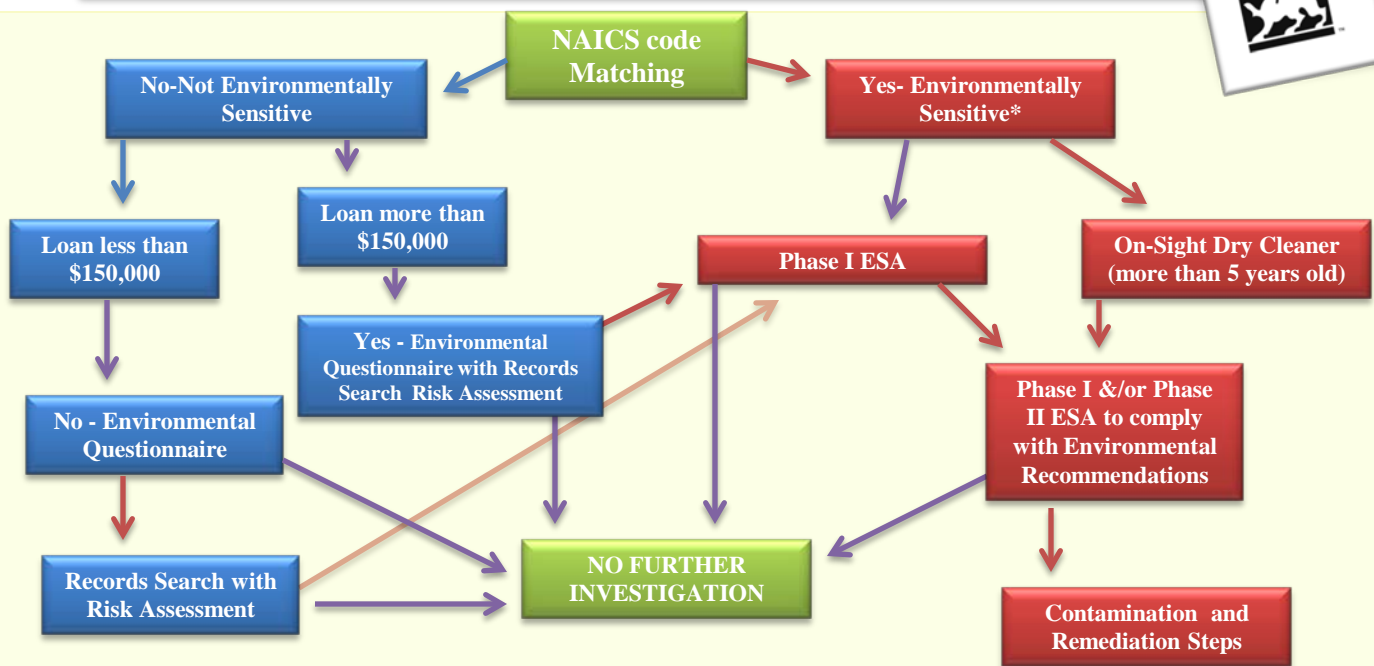
- ✓ Appraiser must be independent (no appearance of a conflict of interest) and State-Licensed or State-Certified. (Certification required if estimated value is over \$1,000,000.)
- ✓ Appraisal must be prepared in compliance with Uniform Standards of Professional Appraisal Practice (USPAP). (the SBA will not accept a “*Restricted Appraisal Report*”)
- ✓ For credit reasons the SBA requires that the Appraisal discuss at least two (2) methods of valuation.
- ✓ The following must be named intended users of the Appraisal and the report must be addressed to (1) the Bank **and** (2) the CDC **and** (3) the SBA as follows:

U.S. Small Business Administration
6501 Sylvan Road, Suite 111
Citrus Heights, CA 95610-5017

Indiana Statewide Certified Development Corporation
4181 East 96th Street, Suite 200
Indianapolis, IN 46240

- ✓ With new construction or substantial renovation the Appraisal must estimate what the market value will be at completion of construction. This should be an “*as complete*” value as the SBA will **not** accept an “*as stabilized*” value.
- ✓ If the project involves new construction or substantial renovation and an “*as complete*” value is listed in the original Appraisal, after construction is completed CDC must be provided a certification from the Appraiser that the building was built with only minor deviations (if any) from the plans and specifications upon which the original estimate of value was based. Any substantial changes may require an adjustment of the Appraised Value.
- ✓ When the collateral is an existing building that does not require construction, the Appraiser should estimate market value on an “*as-is*” basis or the narrative must explain why the “*as-is*” basis was not used.
- ✓ If the appraisal engagement letter asks for a business enterprise or going concern value, the appraiser must allocate separate value to the individual components, including land, building, equipment and business (including intangible assets).
- ✓ If the collateral is a special purpose property, the appraiser must be experienced in the particular industry.

Environmental Flow Chart & Sensitive Industries



NAICS CODES OF ENVIRONMENTALLY SENSITIVE INDUSTRIES*

- 211 OIL & GAS EXTRACTION
- 212 MINING (EXCEPT OIL & GAS)
- 213 SUPPORT ACTIVITIES FOR MINING
- 237 HEAVY & CIVIL ENGINEERING CONSTRUCTION
- 311 FOOD MANUFACTURING (if underground fuel tanks present)
- 312 BEVERAGE & TOBACCO PRODUCT MANUFACTURING
- 313 TEXTILE MILLS (not required if sewing, weaving, or hemming only)
- 314 TEXTILE PRODUCT MILLS (not required if sewing, weaving, or hemming only)
- 316 LEATHER & ALLIED PRODUCT MANUFACTURING
- 321 WOOD PRODUCT MANUFACTURING (if finishing occurs on site)
- 322 PAPER MANUFACTURING
- 323 PRINTING & RELATED SUPPORT ACTIVITIES
- 324 PETROLEUM & COAL PRODUCTS MANUFACTURING
- 325 CHEMICAL MANUFACTURING
- 326 PLASTICS & RUBBER PRODUCTS MANUFACTURING
- 327 NONMETALLIC MINERAL PRODUCTS MANUFACTURING
- 331 PRIMARY METAL MANUFACTURING
- 332 FABRICATED METAL PRODUCT MANUFACTURING
- 333 MACHINERY MANUFACTURING (not required if assembly only)
- 334 COMPUTER & ELECTRONIC PRODUCT MANUFACTURING (not required if assembly only)
- 335 ELECTRICAL EQUIPMENT, APPLIANCE & COMPONENT MANUFACTURING (not required if assembly only)
- 336 TRANSPORTATION EQUIPMENT MANUFACTURING
- 337 FURNITURE & RELATED MANUFACTURING (if finishing occurs on site)
- 339 MISCELLANEOUS MANUFACTURING (only required if hazardous materials are involved)
- 42311 AUTOMOBILE & OTHER MOTOR VEHICLE MERCHANT WHOLESALERS (if service bays present)
- 42314 MOTOR VEHICLE PARTS (USED) MERCHANT WHOLESALERS
- 4235 METAL & MINERAL MERCHANT WHOLESALER
- 42393 RECYCLABLE MATERIAL MERCHANT WHOLESALER
- 4246 CHEMICAL & ALLIED PRODUCTS MERCHANT WHOLESALERS
- 4247 PETROLEUM & PETROLEUM PRODUCTS MERCHANT WHOLESALERS

- 441 MOTOR VEHICLE AND PARTS DEALERS (if service bays present)
- 447 GASOLINE STATIONS
- 45431 FUEL DEALERS (not required for propane or firewood dealers)
- 481 AIR TRANSPORTATION
- 482 RAIL TRANSPORTATION
- 486 PIPELINE TRANSPORTATION
- 53212 TRUCK, UTILITY TRAILER, AND RV (RECREATIONAL VEHICLE) RENTAL & LEASING (if repairs, maintenance or vehicle washing are performed onsite)
- 53241 CONSTRUCTION, TRANSPORTATION, MINING & FORESTRY MACHINERY & EQUIPMENT RENTAL & LEASING (if repairs, maintenance or vehicle washing are performed onsite)
- 53249 OTHER COMMERCIAL & INDUSTRIAL MACHINERY & EQUIPMENT RENTAL & LEASING (if repairs, maintenance or vehicle washing are performed onsite)
- 54138 TESTING LABORATORIES
- 56171 EXTERMINATING & PEST CONTROL
- 562 WASTE MANAGEMENT & REMEDIATION SERVICES
- 6221 GENERAL MEDICAL & SURGICAL HOSPITALS (if fuel tanks are present)
- 71391 GOLF COURSES & COUNTRY CLUBS
- 71392 SKIING FACILITIES
- 71393 MARINAS
- 7212 RV (RECREATIONAL VEHICLES) PARKS & RECREATIONAL CAMPS (if fuel tanks are present or if vehicle repairs or maintenance is performed onsite)
- 8111 AUTOMOTIVE REPAIR & MAINTENANCE (except for "car wash only" facilities, for which a Transaction Screen is an acceptable starting point)
- 8112 ELECTRONIC & PRECISION EQUIPMENT REPAIR & MAINTENANCE (not required if assembly only)
- 8113 COMMERCIAL & INDUSTRIAL MACHINERY & EQUIPMENT REPAIR & MAINTENANCE
- 8122 DEATH CARE SERVICES
- 8123 LAUNDRY & DRY CLEANING SERVICES (if dry cleaning operations have ever existed on site)
- 812921 PHOTOFINISHING LABORATORIES (except one hour)

*A Phase I should always be obtained if the business sells, supplies or dispenses fuel, gasoline, heating oil, even if the NAICS code for the business is not identified on this list of environmentally sensitive industries.

A complete list of industries and corresponding NAICS codes is available online at <http://www.census.gov/eos/www/naics/>.

General Information & Requirements



Environmental Requirements & Helpful Tips:

SBA environmental requirements for its various Loan programs, may differ from your own policies. Here are some tips to make the process work effectively:

The Approval Process:

- ✓ Before an SBA 504 Loan can be disbursed, SBA and CDC must agree either that there is no risk of environmental contamination at the Property or that the risk has been sufficiently minimized, based on the Environmental Report.
- ✓ Order the appropriate Environmental Investigation and share the results with us.
 - If we conclude that no further investigation is required, then we will submit the Environmental Investigation to SBA with the recommendation that it be approved. SBA, however, retains the final decision on whether there is a need for additional investigation.
 - If we or SBA conclude that further investigation is required, then we will work with you and the applicant to obtain what is needed.

Tips for Timing of Environmental Investigation:

- ✓ The 504 Loan application and SBA Loan Approval can occur *prior* to receipt and review of the Environmental Investigation, but we do want to address any environmental concerns as early as possible in the process.
- ✓ It is strongly recommend that you work with us to have SBA approve the Environmental Investigation *before you close and disburse your Interim and/or Third Party Loans*.
- ✓ We want to make certain that SBA has no further requirements before you are committed to your loan. In addition, early attention to environmental issues will protect both you and the small business applicant from getting stuck with an environmentally-contaminated Property.

Which Environmental Investigation is Required:

Under SBA's policy, the first step in deciding which Environmental Investigation to order is whether the Property is a *unit in a multi-unit building* such as an office condominium or, for any other type of Property, determining the NAICS Code for *all present and former known uses* of that Property.

- ✓ If any of the NAICS Codes are a match for an “environmentally sensitive” industry as defined on the included list, then a Phase I Environmental Site Assessment is required. Certain uses – gas stations, dry cleaners, buildings constructed prior to 1978, etc. – have additional requirements which we will be glad to discuss with you. (For example, equipment testing is required for gas station properties and Phase II testing is required for on-site dry cleaners that are five or more years old.)
- ✓ If there is no NAICS Code match or the Property is a unit in a multi-unit building, then for loans over \$150,000, you may be able to proceed with an Environmental Questionnaire, a Records Search with Risk Assessment. SBA also has certain minimum requirements for Environmental Questionnaires, including that the current (pre-Project) owner or operator of the site, the applicant and the lender sign the questionnaire. ***Please contact us to discuss the details before ordering your Environmental Investigation.***

General Information & Requirements



Environmental Requirements & Helpful Tips

Ordering the Environmental Investigation:

When you commission an Environmental Investigation, please make sure that the Environmental Professional adds the following parties as addressees of the report:

Indiana Statewide Certified Development Corp. and U.S. Small Business Administration
4181 E. 96th Street, Ste. 200
Indianapolis, IN 46240

Environmental Professionals:

Any Environmental Investigation other than an Environmental Questionnaire requires an impartial Environmental Professional who meets the educational and experiential requirements of EPA's AAI regulation. Most Environmental Professionals on your approved list will be acceptable to SBA, but we also can recommend professionals who are familiar with SBA procedures and can address SBA issues effectively.

- ✓ For a Phase I or Phase II, the Environmental Professional must provide the **SBA Reliance Letter*** and evidence of errors & omissions liability insurance of at least \$1 million per claim or occurrence.

Needed Conclusion:

For all Environmental Investigations including an Environmental Questionnaire and Records Search with Risk Assessment, the Environmental Professional will need to conclude in writing either

- The Property has a minimal or low risk of contamination and no further investigation is warranted
- There is risk of contamination sufficient to warrant additional investigation.

In the latter situation, the Environmental Professional will need to provide recommendations as to further investigation. Again SBA has requirements for what areas the Environmental Professional must document.

Handling Miscellaneous Recommendations:

Environmental Professionals may offer recommendations on changes to the Property that do *not* require further investigation; for example, they may recommend the removal of old tanks or 55-gallon barrels.

The SBA requires confirmation that the applicant has addressed these recommendations prior to approving the report.

More Involved Situations:

If the Property is a gas station or the Environmental Investigation shows contamination in excess of actionable or reportable levels, the need for additional testing, or other situations where there could be potential liability for environmental cleanup, please contact us **immediately**. Each situation will present different issues and have different solutions. Approval and disbursement of the 504 Loan is possible even when there is contamination which is or will be remediated, but we will need to work closely with you and the Environmental Professional to develop possible solutions and prepare recommendations for SBA.

It is our job to help you and the 504 Loan applicant to understand and address SBA's environmental requirements. Please do not hesitate to contact us if you need further guidance or have any questions whatsoever about these requirements or environmental conditions at the Property.

*SBA Reliance letter available upon request

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