

SBA 504 LOAN PROGRAM

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A C O M P R E H E N S I V E G U I D E



Fixed
Asset
Financing
For
Growing
Businesses

SELF  HELP

VENTURES FUND

NORTH CAROLINA'S #1
SBA 504 LENDER

SBA 504 LOAN PROGRAM

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QUICK FACTS ABOUT SBA 504 LOANS	2
PROGRAM BENEFITS	2
SBA PUBLIC POLICY AND COMMUNITY DEVELOPMENT GOALS	3
PROJECT ELIGIBILITY	4
BORROWER ELIGIBILITY	4
LOAN STRUCTURE	5
STEPS IN THE 504 FINANCING PROCESS	5
APPLICATION PARTICULARS	6
CREDIT STANDARDS	7
APPROVAL PROCESS	8
INTERIM FINANCING	8
CLOSING AND FUNDING	8
TERMS, RATES AND FEES	9
COLLATERAL	10
SERVICING	10
LOAN ASSUMPTIONS	12
LOAN PREPAYMENTS	12

QUICK FACTS ABOUT SBA 504 LOANS

Basic Loan Structure

- Private lender, usually a bank, provides interim financing for up to 90% of total project costs, and a permanent mortgage for **50%** of total project costs
- Self-Help provides up to **40%** of permanent financing for project costs, with a cap of \$1.5 million in most cases. A 504 loan can go up to \$2 million if the borrower meets SBA public policy and/or community development goals. For manufacturers, the maximum 504 loan is \$4 million
- Business owner provides as little as **10%** equity injection (usually cash or land) Start-ups or special-use buildings require at least **15%**. Start-ups and special use buildings require at least **20%**
- Overall project size can range from \$125,000 to \$10 million

Typical Uses for 504 Funds

- Build a new facility from the ground up
- Acquire an existing building to relocate company operations
- Buy and renovate an existing building
- Make a substantial addition to a building already owned by the borrower
- Acquire new machinery and equipment with a usable lifetime of at least 10 years (short-lived items like computers typically do not qualify)

Eligible Project Costs

- Financing is for land, buildings, heavy-duty machinery and equipment, and related soft costs (architect fees, construction interest, eligible legal costs, surveys, appraisals, lender fees, etc.)
- Ineligible for financing: working capital, relocation expenses, inventory, rolling stock (like trucks), goodwill, or enterprise value

Borrower Eligibility Issues

- Must be a for-profit corporation, partnership or proprietorship
- Net worth of less than \$7.5 million
- Average net profit does not exceed \$2.5 million in last two years
- Can demonstrate solid management ability
- Can create new jobs: one per \$50,000 of SBA financing, unless project meets an SBA public policy goal and/or community development goal
- Cash flow can cover debt service
- Strong balance sheet (typically debt-to-worth of less than 5:1 with project included)
- Start-up businesses are eligible, but must meet more rigorous underwriting criteria

PROGRAM BENEFITS

The SBA 504 program provides strong benefits to borrowers, participating lenders and their communities:

Benefits to the Borrower

- Low downpayment (as little as 10%) doesn't deplete cash on hand—allowing the borrower to **conserve working capital**, grow faster and create more jobs
- Longer repayment terms reduce the borrower's monthly payments: 20-year term on loans for buildings and land; 10 years on machinery and equipment loans
- Fixed interest rates on SBA loans are generally lower than market rates, and mean no future rate fluctuations
- Private lenders often cannot provide the needed financing without SBA 504 funds, so

- the 504 program can make the critical difference in getting a project off the ground
- The SBA's subordinate position attracts private lenders' participation, since their capital is less at risk
 - Self-Help prepares almost all the paperwork needed to gain SBA approval, so the **borrower's paperwork role is minimized**

Benefits to the Participating Lender

- Can offer attractive terms to customers at no additional cost: long repayment term, low downpayment and reduced debt service
- Can earn fees and profits on first mortgage position. **No restrictions on rate and fee structure.** Interest rates can be either variable or fixed
- **Loan risk is low:** lender funds only 50% of the project cost, yet receives first lien position on 100% of the collateral
- Self-Help handles all SBA approvals and services the 504 loan, minimizing paperwork and expense for the lender
- Projects create new jobs, which can **attract potential customers**
- Smaller lenders can extend their legal lending limits
- Small business loans can meet Community Reinvestment Act (CRA) compliance requirements

Benefits to the Community

- Projects increase the tax base and diversify the local economy
- Attractive financing produces more jobs in small businesses
- In many cases, the community can retain jobs that otherwise would be lost
- Financing stimulates economic development in depressed areas
- See more economic benefits at www.504impact.com

ABOUT THE SBA

Congress created the U.S. Small Business Administration (SBA) in 1953 to help America's entrepreneurs form successful small enterprises. Today, SBA offices in every state, the District of Columbia, the Virgin Islands and Puerto Rico offer financing, training and advocacy for small firms. The SBA also works with thousands of lending, educational and training institutions nationwide.

The SBA enables its lending partners, such as Self-Help, to provide financing to small businesses when funding is otherwise unavailable on reasonable terms by guaranteeing major portions of loans made to small businesses.

The SBA established the 504 program specifically to finance fixed-asset projects for America's growing small businesses. The SBA intended to create a vehicle that would provide low downpayments, attractive interest rates and long payback terms on loans for new fixed assets. With these terms, small businesses could conserve working capital for the important task of growing their businesses and creating more jobs.

To learn more about SBA programs, visit www.sba.gov/services

SBA PUBLIC POLICY AND COMMUNITY DEVELOPMENT GOALS

The maximum SBA loan is typically \$1.5 million and the business must create or retain one job for every \$50,000 provided by the SBA.

However, if a business meets an SBA public policy goal, the maximum SBA loan is \$2 million and the job creation requirements are waived. The SBA **public policy goals are as follows:**

- Minority business development
- Rural business development
- Expansion of small businesses owned and controlled by women
- Expansion of small businesses owned and controlled by veterans
- Business district revitalization
- Expansion of exports
- Enhanced economic competition
- Restructuring because of federally mandated standards or policies
- Changes necessitated by federal budget cutbacks

The job creation requirement can also be waived for projects that meet the following **community development goals:**

- Help to improve, diversify or stabilize the economy of the locality
- Stimulate other business development in the community
- Bring new income into the community
- Assist manufacturing firms
- Assist businesses in a labor surplus area

For **manufacturers**, a \$4 million loan is available. To qualify, the company must project to create one job for every \$100,000 of 504 financing. These projects can run as high as \$10 million.

PROJECT ELIGIBILITY

Loan proceeds may be used for plant acquisition, construction, conversion or expansion; for the rehabilitation of commercial structures; and for the purchase and installation of machinery and equipment with a useful life of 10 years or more.

In addition, certain “soft costs” can be paid with loan proceeds, including interim interest costs and professional fees for items such as appraisals, surveying, engineering and architectural services. However, this program does not provide funds for general working capital, relocation expenses, inventory or rolling stock (like trucks). These funds must come from either the business itself or from another loan.

Businesses purchasing existing commercial real estate with a 504 loan must occupy a minimum of 51% of the building's total square footage. Applicants constructing new commercial real estate must occupy at least 60% of the total square footage initially, and occupy an additional 20% within five years. They can lease out the remaining 20% indefinitely.

BORROWER ELIGIBILITY

The 504 program basically has two size standards. To be eligible, the small business must have a net worth that does not exceed \$7.5 million or average annual net profits after taxes over the past two years that do not exceed \$2.5 million.

Almost all small businesses are eligible for 504 loans. The few exceptions are businesses engaged in gambling, lending or investment, and nonprofits. Start-up businesses are eligible for 504 financing, but must meet more rigorous underwriting criteria.

Please see the Credit Standards section (p.7) for more information about project and borrower eligibility requirements.

LOAN STRUCTURE

Typically, a 504 project includes a loan secured with a senior lien from the participating lender covering up to 50% of the project cost, a 504 loan secured with a junior lien from Self-Help covering up to 40% of the cost, and a contribution of at least 10% equity from the small business being funded. Start-up businesses or special use (versus general purpose) building projects require at least a 15% equity injection. Start-up businesses seeking a loan for a special use building require at least 20%.

The participating lender does need to provide interim financing for up to 90% of total project costs. This loan is reduced when Self-Help completes the funding of its 504 loan at the end of the project.

The overall project size can range from \$125,000 to \$10 million. The cap for the SBA portion of financing is \$1.5 million in most cases and \$2 million if the borrower meets certain SBA public policy or community development goals. For manufacturers, the cap is \$4 million.

WHAT ARE CDCs?

The SBA selects organizations across the United States like Self-Help to promote and administer the 504 program. The SBA designates these organizations as Certified Development Companies (CDCs). The SBA retains ultimate responsibility for the rules and regulations governing the 504 program, and for overseeing the approval process for each loan.

Self-Help is North Carolina's #1 SBA 504 Lender

STEPS IN THE 504 FINANCING PROCESS

Self-Help's staff works closely with the borrower and the participating lender to coordinate the process of funding a 504 project, from initial approval to ultimate funding. In general, the process will follow this order:

1. Borrower and/or lender contacts the Self-Help loan officer to discuss the potential project. Self-Help screens for 504 eligibility
2. Borrower, lender and the Self-Help loan officer meet to review the project and agree upon loan structure
3. Lender and Self-Help's loan officer receive copies of all documents required to perform an analysis of the project
4. Lender approves project financing via the SBA 504 program. Self-Help's loan committee also approves the deal
5. Self-Help submits an application to the SBA and obtains SBA approval for the project. SBA issues a formal loan authorization
6. Lender closes its interim financing
7. Borrower completes the project—acquiring assets and/or building its new building—with funds from this interim financing
8. When construction is complete, Self-Help closes the SBA 504 loan and wires funds to the lender to reduce the interim loan to the permanent balance
9. Borrower begins making payments on two loans: one from the lender, one from the SBA/Self-Help

APPLICATION PARTICULARS

Once a borrower or lender has notified us of a project that may need SBA 504 financing, Self-Help schedules a meeting with the borrower and the participating lender to discuss the project and see if we can prepare an attractive 504 financing package.

At this first meeting, we want to learn background information about the business: when it started (or will start); what its key products are; the backgrounds of the owners and managers; and why it needs to pursue this project. If the company has developed a business plan, we will request a copy to assist us in preparing our application.

By meeting early in the process, we help the borrower and the lender structure the project so it is in line with SBA rules and regulations.

Once we have determined how the project can work, both Self-Help and the participating lender seek internal approval for the proposed financing. Self-Help cannot get final SBA approval for any project without first receiving a commitment from the participating lender.

Self-Help will start the 504 application review process by examining the same information the lender needs to evaluate the business:

- Financial background on the business—including three years of balance sheets and profit and loss statements, and tax returns
- Interim statements for the current year (same information)
- Personal financial statements for the owners of the business
- Estimated project costs: land purchase agreements, construction estimates, equipment bids, etc. (We can fill in details on “soft costs” after we begin to examine the project.)

We also need income projections. For existing businesses, we generally only need annualized income statements. For start-ups, we also need month-by-month cash-flow statements. If the business does not have positive cash flow by the end of the first year, we need a second year of monthly cash-flow statements. Because cash flow is so critical for a start-up, we need to see that the business has enough cash to handle its cash-flow needs.

After we've reviewed the basic information, we present the project to our loan committee for evaluation. Self-Help's loan committee meetings occur every Wednesday. Review by our loan committee is usually simultaneous with the lender's approval of the 504 deal. The committee members will approve the loan, decline the loan or defer from voting until more information is received. If the deal receives approval by the loan committee, we then prepare a formal SBA application.

The application submitted to the SBA by Self-Help will include the above information, and will also need to include:

- A commitment letter from the lender
- Work histories for owners and other key personnel
- Personal history statements on the owners
- Financial information on any other businesses owned by the business owners
- A business notes payable schedule
- Schedules for accounts receivable and accounts payable

We provide the borrower with all SBA forms and paperwork that are needed for the application, and do all the work associated with gaining SBA approval. **Neither the lender nor the borrower has to interact directly with the SBA.**

Restrictions on Uses of Funds

Many businesses need multiple types of funding when they are pursuing a potential

504 project like the acquisition of a new building. They may also need new office furniture, a new injection of permanent working capital or new business vehicles.

As outlined earlier in this guide, 504 loans can only be used for the acquisition and/or improvement of eligible fixed assets, as well as the associated eligible soft costs. Consequently, we cannot always meet all the borrower's financing needs through a 504 package. In many cases, we can work with the borrower and the participating lender to break the business financing needs down into several components. For instance, we might be able to fund the fixed assets via the 504 program, and arrange an SBA guaranteed loan for rolling stock (like vehicles) and working capital.

CREDIT STANDARDS

Both Self-Help and the SBA review the loan application to ensure it meets SBA regulations and lending criteria. There are several key issues we must examine to make sure a project can pass muster with the SBA:

Job Creation

Businesses looking for 504 financing should be growing and adding new jobs. The standard litmus test is that the business can generate one job per \$50,000 of SBA financing. For example, consider a \$1 million project, for which the SBA is providing \$415,000 of financing. The business should project to create at least nine new jobs over the next two years.

For manufacturers seeking the specially sized, larger manufacturing loan (between \$1.5 million and \$4 million), the business must project to create one job for every \$100,000 of 504 financing.

Note: As mentioned earlier, we can make exceptions for projects that meet public policy and/or community development goals (p.3). If unsure about whether a project can meet the job test, please contact Self-Help. As experts in 504 lending, we may be able to work with the borrower to determine how they can, in fact, satisfy SBA job creation guidelines.

Project Budget

We will review the project to make sure it matches up well with the borrower's situation: Is the project budget solid and supported by documentation? Is the scope of the project appropriate for the business? **We will need documentation of all projected costs**, including land and construction contracts and equipment bids.

Business Management

The business must demonstrate it has solid management personnel in place. It can best demonstrate this capability through its past operating results. However, we will also examine resumes and work histories to verify that management has the capacity to run this kind of business.

Balance Sheet

The business cannot be too highly leveraged. **We typically require a borrower to put only 10% down** on the assets being financed through the 504 project—as compared to the standard 20-30% on most similar projects. However, we do need to verify that the business's overall finances are healthy.

Self-Help will take the business's most recent interim financial statement and add the project figures to that balance sheet. In general, this post-project pro-forma balance sheet should not show more than \$6-7 in liabilities for every \$1 in net worth. However, exceptions exist for well-managed businesses that are taking on a heavier debt load but have shown the ability to manage debt successfully.

For start-ups, the leverage ratio is typically no higher than \$5 in liabilities for every \$1 in net worth. The owners must show they have the capacity to provide adequate working capital for the business.

Cash Flow

The business must show it can generate sufficient cash to cover the increased debt service resulting from the project. If the business can already cover this new debt from current cash flow, approval becomes very easy. However, we typically underwrite projects based on projected cash flow—not just on historical results.

Industry Comparisons

One of the best ways to review a business's financial soundness is to compare it to its peers. The business should have operating statistics that compare favorably with similar businesses. Generally, RMA averages are the yardstick used to make this comparison.

Personal Guarantees

Anyone who owns 20% or more of an operating business or real estate entity receiving an SBA loan is required to provide an unlimited personal guarantee. There are virtually no exceptions to this rule. The SBA may require an owner with less than 20% ownership to guarantee the loan in cases in which the SBA feels it needs additional personal guarantees to secure its position.

APPROVAL PROCESS

Once Self-Help approves the loan application, the loan officer submits the application to the SBA for review. **We generally can get SBA approval within a few days of submitting a complete application.** Once the SBA approves the loan, it issues a written loan authorization within about a week.

INTERIM FINANCING

Self-Help sends copies of the loan authorization to the borrower and participating lender for their review. At this point the lender can close its interim loan and advance funds. The lender monitors the project during construction/acquisition and disburses funds. The lender should contact us when the project is about 85% complete, so we can begin our closing process.

CLOSING AND FUNDING

Self-Help works with the borrower and the lender to execute the necessary closing documents and provide other documentation required by the SBA. Once we complete the process, the SBA wires funds to the lender to reduce its interim financing to the permanent balance. The lender will convert to the permanent loan of full principal and interest payments, and the borrower will start making monthly payments on the SBA 504 loan.

Note: Except in cases of building acquisitions, we typically do not execute closing documents on a 504 loan until a project is complete. Consequently, the borrower goes through a **second closing process.**

The closing process requires careful coordination among Self-Help, the borrower and the lender. Typically, the borrower chooses to have his or her own attorney conduct this closing. **However, Self-Help's legal staff prepares most of the required SBA documents for the closing** in order to minimize the time spent by the borrower's attorney on the closing and to limit the legal fees incurred by the borrower.

How “Debentures” Provide SBA 504 Funds

For the purposes of borrowers and lenders alike, a 504 loan appears to be a direct loan from Self-Help: We originate it, close it and service it.

However, the actual funds for the 504 loan come from a federal government sale of “debentures”—bond-like instruments with semi-annual payment structures—to large investors (like pension funds and insurance companies) that are looking for a safe but slightly higher yield than they can capture on a 10-year Treasury investment.

SBA 504 debentures vary in price directly with 10-year Treasuries because that is the comparable financial product the investors are considering. These investors receive a guarantee of the full faith and credit of the federal government.

*To make the process more efficient than doing a series of small transactions, the SBA financial agents aggregate 504 projects from across the country and sell the debentures for each project in a monthly auction. **This process ensures the lowest rate possible for 504 borrowers.***

Consequently, 504 debentures are funded only one day each month. Self-Help conducts its closings on a “dry” basis (no advancement of funds), and then has the loan funded through the sale of a debenture in the next available monthly auction.

The process requires careful timing and coordination among the parties—but the debenture sales generally yield a very attractive fixed rate that will last for the 10- or 20-year lifetime of the 504 loan.

TERMS, RATES AND FEES

SBA 504 financing incurs the following terms, rates and fees:

Term of the SBA Loan

If the majority of the loan proceeds will be used for real estate, the term is 20 years. If the majority of proceeds will be used for machinery and equipment, the term is 10 years.

Interest Rate on the 504 Loan

The interest rate is determined at the time the 504 loan **is funded**. The interest rate is fixed for the life of the loan. It usually averages 2% to 2.25% above comparable Treasury market rates. (Included in this estimate are ongoing servicing fees that amount to approximately 1.4% of the effective interest rate. **There are no ongoing servicing fees outside the effective interest rate we quote at closing.**)

Participating Lender’s Term and Rate

The participating lender will price its own loan. It is also permitted to set its own amortization schedule. The term of the loan needs to match up with the 504 loan term: at least seven years for 10-year 504 loans, and at least 10 years for 20-year 504 loans.

Financing Costs

Self-Help must collect the following fees on the net amount of project costs the 504 loan is funding:

- Master Reserve Account: Set at 0.0% effective 10/1/07
- Processing Fee: 1.5%
- Funding Fee: 0.25%
- Underwriting Fee: 0.4%
- Legal Fees for Loan Closing: up to \$2,500

The total cost of financing is approximately 2.15% of the 504 loan amount plus legal

fees. These fees pay for expenses incurred over the life of the loan by Self-Help, the SBA, Colson Services and the companies that prepare and sell the debenture. All fees are financed as part of the loan and **do not represent an out-of-pocket cost to the borrower.**

Self-Help Loan Deposit

The business must make an initial deposit of the lesser of \$2,500 or 1% of the 504 loan amount. Should Self-Help or the SBA reject the business's application, this amount will be refunded immediately. If the loan closes, this amount is credited against processing fees owed to us. If, after the loan is approved by the SBA, the business never closes the loan, Self-Help retains this deposit as its processing fee.

Other Fees Involved

SBA 504 loans require standard closing conditions: environmental analyses, surveys, appraisals, etc. The participating lender will typically have already required this information as part of the closing of its interim financing, so it **does not represent an additional cost to the borrower.** These fees are typically financed as part of the project's soft costs.

COLLATERAL

The SBA takes a second (junior) lien interest on all real estate may need to take a first lien on equipment financed by the 504 loan. In approximately 95% of our projects, these liens are the only collateral we require. In certain cases, however, the borrower must provide additional collateral to secure the loan.

We will generally need to request outside collateral in cases in which the estimated value of the assets being financed is considered too low to protect the SBA's loan position. The two primary cases in which we might need to take a lien position on outside collateral are:

- Deals that involve lots of equipment. Lenders typically assume that equipment has liquidation value of roughly 50% of price. This low liquidation value means we will have a poor collateral position on equipment-heavy deals.
- Real estate projects involving special-use facilities, like car washes, hospitals and hotels. These types of facilities often have poor resale value if the business fails, so we need to look at having a valid secondary source of collateral for the SBA loan.

In these instances, we negotiate with the borrower to find acceptable outside collateral. If the business has other assets outside the 504 project, they might serve this purpose.

SERVICING

After the 504 loan closes, the borrower has two loans in place that are repaid separately. The participating lender will service the senior debt according to its company policies and procedures.

Self-Help will service the SBA 504 loan in accordance with SBA policies, detailed below. For any 504 loan servicing questions or requests, the borrower should contact Self-Help.

Monthly Debt Service Collection

Colson Financial Services of New York serves as the SBA's servicing agent for the 504 program. They receive and record all monthly payments by borrowers, maintain appropriate records, advise Self-Help of payment delinquencies, disburse a semi-annual payment to debenture holders, and prepare tax data for each loan customer (Form 1099).

Colson makes an Automated Clearing House (ACH) draft from the borrowing business's checking account on the first business day of each month. Consequently, it is very important that the business keeps a sufficient balance in this account. **All payments must be made through ACH draft. Borrowers cannot make their monthly payments by check.**

Site Visits and Monitoring Duties

Self-Help will remain in touch with the business after the 504 loan is closed. We will make periodic site visits to the business to confirm that everything is in order with the business and with our collateral, and to answer any questions the borrower may have. In addition to making site visits, Self-Help is responsible for the following:

- Verification that required insurance is in place
- Receipt and review of annual business financial statements
- Verification that the business is current on property tax and monthly 504 loan payments
- Resolution of any delinquencies on the 504 loan
- Notification to the SBA of significant changes in the business or other activities that would affect the security interest of the SBA

Changes to the Business or Loan Structure

Over the lifetime of a 504 loan, a business **must contact Self-Help immediately about changes** which might involve:

1. **Refinancing a senior loan**, which requires the SBA's subordination to the new loan. Unlike standard subordination agreements, the SBA's subordination expires 90 days after the maturity date of the senior lender, so an extension of the senior loan also requires extending the subordination.
2. **Seeking additional funds for capital improvements**, which is the only use permitted under 504 guidelines. This approval requires complete detail about the costs involved, whether it's to subordinate to the additional senior lender debt or for a new 504 loan for significant construction costs.
3. **Change in ownership**, which requires SBA approval, and may require personal unlimited guarantees from the new members.

The senior lender generally has the primary relationship with the borrower and is usually the first to be contacted with any servicing request. When Self-Help is involved **early in the process**, we can work with you to get all the information required by the SBA.

If we have a problem obtaining financial statements from our borrowers, we may request the senior lender's cooperation in providing them to us, especially when it involves a servicing request or a non-performing loan.

In work-out situations with problem loans, we have a fair amount of flexibility, but again it is most helpful to be involved **early in the process**. The Self-Help loan officer or Servicing Department should be notified at the first sign of trouble on the senior lender's loan. We also recommend copying us on correspondence to the borrower so the borrower is aware that we know about your concerns.

In all these cases, we talk with the borrower and determine how the changes may affect our and the SBA's interests in the loan. If we agree to approve the request, we prepare a memorandum to the SBA and seek its permission to let us execute the modification. If we get permission, we work with the borrower to complete any necessary legal work.

Remember, if it is good for the business, it is good for the SBA and we'll find a way to help borrower's meet current and future needs.

LOAN ASSUMPTIONS

Because borrowers often want to sell 504-financed assets without incurring prepayment penalties, the SBA has allowed for the assumption of SBA 504 loans. Self-Help works with the borrower to arrange for the assumption of the loan in these instances.

Our basic credit principle is that the assuming party must be of comparable or better credit quality than the existing borrower. The assumptor must also be able to secure replacement financing for the senior lender's debt on terms acceptable to us. The assumptor must agree to abide by all the basic requirements contained in the original loan agreements and documents. Generally, we subordinate to the existing balance of the senior loan.

LOAN PREPAYMENTS

If a business prepays a 504 loan during the first half of maturity, it will owe a prepayment penalty. This penalty ensures that debenture investors receive the stated yield on their investments. Prepayment during the second half of the loan does not result in a prepayment penalty. After the first year, the penalty is effectively one year's worth of interest on the outstanding balance. This penalty declines by 10% each year on a 20-year loan, and by 20% a year on a 10-year loan. Consider the following schedule for a \$500,000 loan at an interest rate of 5.5%:

SBA 504 LOAN PREPAYMENT PENALTY ESTIMATE								
	20-YEAR LOAN				10-YEAR LOAN			
	Principal Balance	Rate Factor	Estimated Penalty	Total Payoff	Principal Balance	Rate Factor	Estimated Penalty	Total Payoff
Year 1	\$500,000	5.50%	\$27,500	\$527,500	\$500,000	5.50%	\$27,500	\$527,500
Year 2	\$485,874	4.95%	24,050.76	509,924.76	\$485,874	4.40%	\$21,378	\$507,252
Year 3	\$470,951	4.40%	20,721.84	491,672.84	\$470,951	3.30%	\$15,541	\$486,492
Year 4	\$455,187	3.85%	17,524.70	472,711.70	\$455,187	2.20%	\$10,014	\$465,201
Year 5	\$438,534	3.30%	14,471.62	453,005.62	\$438,534	1.10%	\$4,824	\$443,358
Year 6	\$420,941	2.75%	11,575.88	432,516.88	\$420,941	0.00%	\$0	\$420,941
Year 7	\$402,355	2.20%	8,851.81	411,206.81	\$402,355	0.00%	\$0	\$402,355
Year 8	\$382,722	1.65%	6,314.91	389,036.91	\$382,722	0.00%	\$0	\$382,722
Year 9	\$361,980	1.10%	3,981.78	365,961.78	\$361,980	0.00%	\$0	\$361,980
Year 10	\$340,069	0.55%	1,870.38	341,939.38	\$340,069	0.00%	\$0	\$340,069
Year 11	\$316,922	0.00%	\$0	316,922.00	\$316,922	0.00%	\$0	\$0

The prepayment penalty typically poses a problem only when a 504 loan's interest rate is significantly higher than prime rates, and the borrower hopes to save interest by refinancing the loan amount. For at least the first five years of a loan, there is generally no incentive to prepay the debt—but the borrower usually can pay early on the senior lender debt.

There are unique issues associated with each loan prepayment, so we encourage the borrower to **contact us well in advance of prepayment** to coordinate the process as effectively as possible.

ABOUT SELF-HELP

Self-Help is a nonprofit community development financial institution, based in North Carolina and founded in 1980. We make loans, develop real estate, and fight predatory lending to create economic opportunity for all Americans. As a certified SBA 504 lender, Self-Help markets, originates, closes and services 504 loans throughout North Carolina.

Self-Help's additional services and products include direct commercial loans, home loans, deposit accounts and leased office space.

For more information or to discuss an SBA 504 loan, please contact one of the following Self-Help offices:

ASHEVILLE

(828) 771-2813 • (800) 229-7428

CHARLOTTE

(704) 409-5900 • (800) 394-7428

DURHAM

(919) 956-4400 • (800) 476-7428

FAYETTEVILLE

(910) 354-1010 • (800) 774-7966

GREENSBORO & WINSTON-SALEM

(336) 378-1840 • (800) 269-7426

GREENVILLE

(252) 752-8866 • (800) 893-9669

RALEIGH

(919) 755-2232

WILMINGTON

(910) 341-3270 • (877) 559-4284



www.self-help.org