



## **Dallas Business Finance Corporation Disclosure Statement**

*Information about the SBA 504 loan program available through DBFC*

### **The SBA 504 Loan Program**

The SBA 504 loan program offers eligible small businesses a way to help finance expansion projects using long-term, fixed-rate financing. A 504 loan, offered in partnership with a conventional loan from a participating leading institution, is able to provide a small business with up to 90% of a project's total financing requirements.

The SBA relies on the services of a "certified development company" (CDC) like Dallas Business Finance Corporation to package, coordinate, fund, and service SBA 504 loans. Dallas Business Finance Corporation ("DBFC") provides small businesses with access to the SBA 504 loan program in a territory encompassing the entire state of Texas.

This Disclosure Statement highlights routinely encountered issues associated with the SBA 504 loan program and is intended for informational purposes only. It is not meant to be a complete listing of all relevant policies / requirements.

- 1. NO REPRESENTATIONS:** The funding of an SBA 504 loan is subject to satisfactory compliance with the terms and conditions set forth in a loan commitment document known as an SBA Authorization and Debenture Guarantee. By signing this Disclosure Statement, a small business applicant acknowledges that he/she has not relied upon any representation made by DBFC and/or its agents, and that DBFC and/or its agents have made no representations or promises to the applicant and its agents regarding a formal DBFC or SBA approval of a loan, or of qualifications to receive a loan through the SBA 504 loan program.
- 2. TWO STAGE PROCESS:** There are two distinct stages involved with securing funding under the SBA 504 loan program. An "application" (the basis of this information package) and a "funding" (a 504 funding) occurs when a project is complete and final costs are all disbursed. This requires a partner bank lender to provide a short-term bridge or construction loan equivalent in value to the SBA 504 loan while documents are prepared and submitted to the bond market in New York for the actual SBA 504 loan funding.
- 3. APPROVAL TIMEFRAME:** Once all documents have been submitted to DBFC and by DBFC to the SBA in Sacramento, the application approval process typically takes from two to four weeks to generate a formal approval from both DBFC and from the SBA in Sacramento, CA. **No approval is final until the SBA has issued a signed SBA Authorization and Debenture Guaranty, SBA**



**Form 1248 (“SBA Authorization”) and approved all required environmental and appraisal reports in writing.**

4. **INTEREST RATES:** DBFC will sell a “debenture” (a bond) to provide the SBA 504 financing, which can be up to 40% of the identified total project cost for the proposed project. A participating bank lender typically provides financing for 50% of the total project cost. SBA 504 program debentures are sold once a month on the New York market. At the time of sale, a **FIXED RATE** will be assigned to that debenture. This rate will not be set for a borrower until their specific debenture is funded and sold.
  
5. **ELIGIBLE PROJECT COSTS:** For the purposes of identifying and calculating the “total project cost” of an expansion project, expenditures on the following items are considered **ELIGIBLE COSTS** under the SBA 504 program:
  - Purchase of land and (a) building(s);
  - Building improvements and construction costs;
  - Related project expenditures, e.g. appraisal, engineering, architectural and/or any environmental reporting costs;
  - Construction interest and any associated interim loan fees; and/or,
  - Purchase of equipment and machinery.
  
6. **MAXIMUM / MINIMUM LOAN AMOUNTS:** As a general rule, the maximum share of a total project that can be financed under the SBA 504 program is limited to 40% of the total eligible costs, up to a maximum of \$1,500,000 **OR**, if the proposed project meets SBA’s Public Policy criteria objectives (see item 9), 40% of the total eligible costs, up to a maximum of either \$2,000,000 or, if a small manufacturing company (as defined by SBA), \$4,000,000. The minimum loan amount available is \$25,000. The SBA 504 loan may not be larger than the partner bank lender’s loan.
  
7. **LOAN TERMS:** SBA 504 financing is usually provided through the sale of a 20-year, fixed interest rate debenture. A 10-year fixed rate debenture is also available. Expansion projects only involving the purchase of machinery or equipment with a useful life of at least ten years typically are financed through the sale of the 10 year fixed rate debenture.
  
8. **LEASING EXCESS SPACE POLICY:** If an expansion project involves the acquisition of an existing building, the small business applicant(s) must occupy at least 51% of the total building space and SBA 504 program proceeds may not be utilized to finance the tenant-finish out of any portion of the building not being occupied by that small business. If an expansion project involves the construction of a new building, the small business applicant(s) must occupy at least 60% of the



total building space upon completion, occupy at least 61% of the total building space within three years of completion, and occupy at least 80% of the total building space within 10 years of completion; and, SBA 504 program proceeds may not be utilized to finance the tenant-finish out of any portion of the building not being occupied by that small business.

- 9. ECONOMIC DEVELOPMENT OBJECTIVES:** The overall objective of the SBA 504 program is to help small businesses create wealth for themselves and their communities. As an indicator of this, DBFC will consider how many “job opportunities” might reasonably be created by a small business within two years of receiving SBA 504 funds and/or whether a proposed project meets one of either the SBA’s Community Development or Public Policy objectives. SBA Community Development objectives include: improving, diversifying or stabilizing a local economy; stimulating other business development; bringing new income into a community; and, assisting businesses in labor surplus areas.

SBA Public Policy objectives are met when the eligible small business applicant is: (1) a woman-owned business; (2) a minority-owned business; (3) a veteran-owned business; (4) a rural-based business; (5) an exporter; (6) a business locating / located in a economic enterprise zone; OR, (7) a business restructuring because of federally mandated policies or federal budget cutbacks. A special Public Policy objective also exists for small US-based manufacturing firms.

If a regular Public Policy goal is met, the maximum loan amount under the SBA 504 loan program is increased to \$2,000,000. For small manufacturing firms, the maximum SBA 504 loan amount is \$4,000,000.

- 10. REAL ESTATE OWNERSHIP:** A passive, single-purpose real estate holding entity (an Eligible Passive Concern or EPC) and certain types of trusts are permitted to hold title to real estate and lease a project facility to an eligible small business operating company. A copy of a master lease between the EPC and the eligible small business Operating Company (OC) will be required as part of documents collected prior to the disbursement of SBA 504 loan proceeds. In these situations, although the borrower is a passive real estate holding company, the SBA 504 loan is being made on the demonstrated strength of the active OC, which must be either a co-borrower or guarantor on the loan.

It is possible for SBA 504 program funds to be used to help finance projects involving multiple, unrelated eligible small business operating companies.

- 11. SIZE ELIGIBILITY REQUIREMENTS:** A small business applicant, together with its affiliates (an affiliation occurs when one concern controls or has the power to control the other), generally may not have a tangible net worth in excess



of \$7.5 million, and may not have an average net income after taxes in excess of \$2.5 million (two year average). Some exceptions are allowed to this general rule.

12. **“EXCESS” PERSONAL LIQUIDITY TEST:** If the individuals holding a 20% or more ownership interest in the business applicant(s) have collective “excess” personal liquid assets, they may be asked to inject a portion of those liquid assets into a project before being eligible to participate in the SBA 504 program. As a general rule, the individual’s personal liquid assets are “exempt” from injection according to the following guidelines: (a) the greater of \$100,000 or two times the eligible project costs for financing projects up to \$250,000 in size; (b) the greater of \$500,000 or 1.5 times the eligible project costs for financing projects between \$250,001 and \$500,000 in size; and, (c) the greater of \$750,000 or one times the eligible project costs for financing projects in excess of \$500,000 in size. If the individual personal liquid assets exceed these exempt amounts, they will be asked to inject the excess amount into the project and reduce the SBA 504 loan portion accordingly.
13. **PERSONAL / CORPORATE GUARANTEES:** Personal guarantees are required from EVERY person or entity owning 20% or more of an eligible small business applicant(s) or any EPC owning any of the project real estate, machinery or equipment.
14. **LIFE INSURANCE:** In rare circumstances, the SBA may require as a condition of approval, an acknowledged collateral assignment of key-person life insurance on the owner(s) of the business applicant(s). This requirement is usually waived for firms with a demonstrated track record and a proven succession plan.
15. **PREPAYMENTS OF SBA 504 LOANS:** A small business may pay-off an SBA 504 loan in full at, or prior to, a scheduled maturity date, but will incur a prepayment premium over the first half of the life of the SBA 504 loan. This premium penalty declines each year. Partial or additional payments may NOT be made under the SBA 504 loan program.
16. **SBA 504 LOANS MAY BE ASSUMED:** All SBA 504 loans are fully assumable. The same size standards / eligibility considerations do not necessarily apply in situations where a 504 loan is being assumed. However, applicants will need to be qualified and the SBA assesses a 1.0% fee on the outstanding indebtedness for all assumption actions.
17. **PRIOR BANKRUPTCIES:** Full disclosure of prior bankruptcies is required. DBFC reserves the right to withhold approval of applications where a business or its principals have taken prior bankruptcy protection from creditors.



**18. PRIOR CRIMINAL OFFENSES / ARRESTS:** A prior criminal arrest or conviction will not necessarily disqualify an individual from receiving financing under the SBA 504 loan program. However, full disclosure is required. If any individual positively answers questions 7, 8 or 9 on the Statement of Personal History form, that individual will be required to submit a NOTARIZED AFFIDAVIT explaining the reason(s) for the positive answer(s), along with a statement that “no occurrences have since taken place.” Copies of all relevant court documentation relating to the event(s) will also need to be provided. A copy of the required affidavit will be provided on request.

**19. LEGAL PERMANENT RESIDENTS:** SBA 504 loans are available to businesses owned by persons who are not citizens of the United States. However, the processing procedures, terms and conditions may vary, depending upon the residency status assigned by the U.S. Citizen and Immigration Service division of the Department of Homeland Security.

Because fraudulent immigration documents are a serious problem, the status of each Legal permanent Resident must be verified by DBFC as part of the loan application process. Accordingly, applicants seeking SBA 504 financing who are not citizens of the United States must provide: (a) a legible copy of DOCUMENTATION (front and back) evidencing resident status, and, (b) a PERMISSION LETTER, signed and dated, which includes the statement “I authorize the U.S. Citizen and Immigration Service to release information regarding my immigration status to Dallas Business Finance Corporation or its agent.”

**20. CHILD SUPPORT COMPLIANCE:** No principal who owns at least 50% of the ownership or voting interest in a company applying for financing under the SBA 504 program, may be delinquent more than 60 days under the terms of any (1) administrative order, (2) court order, or (3) repayment agreement that requires payment of child support. A certification of compliance will be required before any funds will be disbursed under the SBA 504 program.

**21. TRANSACTION COSTS / FEES:** The following fees relate to all SBA 504 loan applications:

**Loan Packaging Fee & Deposit** – The CDC and/or CDC’s agent receives a \$2,500 Loan Packaging Fee & Deposit from Applicant for assisting Applicant in preparing the Loan Package required by the U.S. Small Business Administration (“SBA”) prior to the SBA considering Applicant’s application for an SBA guaranty. If SBA approves the Loan Application Package, the \$2,500 for packaging services will be included in the gross amount of the 504 loan, and the \$2,500 that Borrower pays out of pocket will be reimbursed to the Borrower once the 504 loan is funded. If SBA does not approve the Loan Application Package,



and all of the conditions of agreements with the CDC have been satisfied, all but \$500 of the Loan Packaging Fee & Deposit shall be refunded to Applicant. Anything to the contrary notwithstanding, if Applicant abandons the application or instructs CDC to withdraw its application and/or terminate this Agreement prior to submission of the application to the SBA, CDC may retain the entire \$2,500 Loan Packaging Fee & Deposit.

**CDC Processing Fee** – The CDC receives a Loan Processing Fee for its participation in the SBA 504 approval process. The processing fee is equal to 1.5% of the net debenture proceeds and will be included in the gross amount of the 504 loan. The Borrower agrees to pay DBFC a sum equal to 2/3 of the total Loan Processing Fee at the time of receipt of the SBA Authorization by DBFC, less any deposit that Borrower paid to DBFC at the time of application. The 2/3 processing fees that Borrower pays out of pocket will be reimbursed to the Borrower once the 504 loan is funded.

**DBFC Attorney's Fees** – The borrower is responsible for all legal costs associated with the preparation and execution of the documents required to close the SBA 504 loan and sell the debenture. DBFC's attorney fees typically range from \$3,000 to \$3,500 and are payable at closing. A portion of these fees – up to \$2,500 – can be included in the SBA 504 financing and be reimbursed to the Borrower once the 504 loan is funded.

**Other Out of Pocket** – Miscellaneous recording costs and title insurance fees associated with an SBA 504 loan may be financed as part of the SBA 504 loan, or paid by the small business at the time of the loan closing. If a debenture is not funded for any reason, an applicant is responsible for reimbursing any legal or title costs incurred on their behalf.

**Included in Loan Proceeds** – The 504 loan program does not receive any taxpayer support. Small businesses participating in the program pay those costs associated with accessing, processing, selling, funding and underwriting the sale of the debenture on the New York market that is used to provide SBA 504 loan program funds. These costs currently equal 2.74% of the 504 portion of the financing project and are usually included in loan proceeds so that out-of-pocket expenses either do not result or are significantly reduced.

**Included in SBA Interest Rate** – The monthly payment a small business pays on an SBA 504 loan is inclusive of the cost of funds (the debenture note rate) plus three statutory on-going fees associated with the operation of the 504 program. These fees consist of a payment that goes to the SBA, a servicing fee that goes to Dallas Business Finance Corporation, and a fee that goes to a central servicing agent in New York (who collects the funds and provides them to the owner of the debenture). For FY 2007, these minimum three statutory fees total 0.743%.



These fees are based on the outstanding principal balance of the debenture, adjusted every five years on the anniversary date of the debenture note.

22. **PARTICIPATING LENDER / BANK FEES:** A onetime bank “Participation Fee” of 0.5% on any new deed of trust senior to the SBA 504 deed of trust, is due at closing and payable to the SBA by the participating partner lender.
23. **ENVIRONMENTAL REPORT:** Prior to the final disbursement of funds, evidence must be provided to the SBA that a project property is free and clear of environmental hazards. An EDR report plus an environmental questionnaire, a Transactional Screening Analysis, a Phase I OR a Phase II Environmental report will be required by the SBA. In all cases, the environmental report should be addressed to the SBA / Dallas Business Finance Corporation. The SBA must approve the environmental report in writing, prior to the disbursement of any 504 funds.
24. **APPRAISAL:** An appraisal will be required on all projects involving the purchase or construction of real estate. All appraisals must be ordered by the participating partner lender and performed by a state-certified appraiser. The SBA must approve the appraisal report in writing, prior to the disbursement of any 504 funds.
25. **FLOOD / EARTHQUAKE HAZARDS:** Flood insurance must be purchased if any building or equipment acquired, installed, improved or constructed with the proceeds of the loan, is located in a special flood hazard area. Newly constructed facilities must be constructed to conform to the National Earthquake Hazards Reduction Program requirements.
26. **START-UP BUSINESSES:** If an applicant small business operating company (OC) has been in operation for two years or less, it must invest / inject a minimum 15% share of the eligible project costs, reducing the SBA 504 participation to a maximum of 35% of the total project costs.
27. **SINGLE-PURPOSE BUILDING:** If a project involves a limited or single-purpose structure, as defined by the appraiser, OR a property designated as “historic”, an eligible small business must invest / inject a minimum 15% share of eligible projects costs, reducing SBA participation to a maximum of 35%.
28. **START-UP BUSINESS AND SINGLE-PURPOSE BUILDING:** If the project involves BOTH a start-up business and a limited purpose building, a small business must invest / inject a minimum 20% share of eligible projects costs, reducing the SBA 504 loan share to a maximum of 30%.
29. **INTERIM AND CONSTRUCTION FINANCING:** Due to the nature of SBA 504 loans, interim or construction financing is typically required to cover period



of time between the approval of a financing application and the sale of a debenture on the New York market to fund the SBA 504 share of the financing report.

- 30. TITLE POLICY / FINANCING STATEMENT REPORT:** You are solely responsible for all costs associated with the Policy of Title Insurance that insures DBFC's and SBA's lien on the subject property. Such insurance is separate from title insurance for third party lenders. If personal property is taken as security, you are responsible for all costs for perfecting DBFC's and SBA's security interest in the property plus all UCC-1 Financing Statement(s) and related reports.
- 31. TIMING OF FUNDING OF SBA DEBENTURES:** Once all the necessary SBA loan documents have been executed, there is a minimum six week period until a SBA loan is actually funded. SBA 504 debentures are only sold once each month (on the Wednesday after the second Sunday). Funds received from this sale are wire-transferred directly to the participating partner lending institution on the same day the debenture funds.
- 32. METHOD OF 504 LOAN PAYMENTS:** Monthly loan payments on the SBA 504 portion of a financing project will be made by an automatic electronic transfer (ACH debit) from a bank account designated by the small business entity. Payments are due on the first working day of each month, beginning the month immediately following the actual sale / funding of a debenture. If payment is received after the 15<sup>th</sup> of the month, a late fee will be assessed.
- 33. WITHDRAWING LOAN APPLICATION AFTER SBA APPROVAL:** In the event you withdraw your loan application after SBA issues the SBA Authorization, or if the SBA Authorization is withdrawn, cancelled or terminated for any reason, you agree to pay DBFC a sum equal to 2/3 of the total DBFC Loan Processing Fee on the loan package and forfeit any deposit paid to DBFC. The 2/3 of the total DBFC Loan Processing Fee shall be due on the date of withdrawal, cancellation and/or termination, notwithstanding any language to the contrary discussed in Item 21 of this disclosure. It is understood that all SBA Authorizations contain conditions which must be satisfied prior to funding of the Debenture.
- 34. NO REPRESENTATIONS:** The funding of the 504 Debenture and disbursement of the proceeds to you is subject to United States Small Business Administration approval of your application and is also subject to your satisfactory compliance with the terms set forth in the SBA Authorization and all other applicable conditions. DBFC and/or SBA may impose conditions not a part of the SBA Authorization. By signing this Disclosure Statement you acknowledge that DBFC has made no representations to you, that you have not relied upon any representations made by DBFC regarding the SBA approval of your loan, and that you understand SBA approval may be revoked until the actual



funding of your loan. The submission and/or approval of this loan application is not a guarantee or commitment to make the loan and/or fund the Debenture by the SBA, DBFC or any other party.

## **GENERAL CONSIDERATIONS**

- 35. EQUAL CREDIT OPPORTUNITY:** Dallas Business Finance Corporation is an equal credit opportunity lender. The Federal Equal Credit Opportunity Act prohibits creditors from discriminating on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract), handicap, because all or part of the applicant's income derives from any public assistance program, or, because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.
- 36. IDENTIFICATION PROCEDURES:** To help the government fight the funding of terrorism and money laundering activities, federal law required DBFC to obtain, verify, and record information that identifies each person who applies for a loan. This means we will ask for a name, address, date of birth, and other information. We will also ask to see your driver's license or other identifying documents.
- 37. INDEMNIFICATION / NO ADDITIONAL PROVISIONS:** An applicant(s) will indemnify and hold DBFC and/or its agents harmless from any and all loss or injury, including reasonable attorney fees, resulting or arising from failure by the applicant to receive such loan, and/or any loss or liability to applicants or the business of the applicant. All parties agree that there are no other promises, terms, or agreements (oral or written) between DBFC, the applicant, and/or its principals, and that program rules and fees are subject to change at any time.
- 38. FINANCIAL PRIVACY:** Our commitment is to protect the personal information you have provided to us, and collect and disclose this information only as allowed by law. Although we are required to secure a credit bureau report on all applicants applying for assistance under our loan programs, and a signature below acknowledges this requirement, we are dedicated to security procedures designed to protect all your personal information and we maintain physical, electronic and procedural safeguards to guard your personal information. DBFC does not sell, trade, or barter your personal information to any party.



*In signing this Disclosure Statement, you acknowledge that you have read and understood, and agree to be bound by, each and every provision set forth herein, as they apply to a loan application for consideration under the SBA 504 loan program accessed through Dallas Business Finance Corporation. As used herein, "You" refers to each of the undersigned. The undersigned has / have authority to bind all other applicants, borrowers and guarantors of the Loan.*

**BORROWER(S) / APPLICANT(S)**

\_\_\_\_\_  
Print Name of Company

By: \_\_\_\_\_ Date: \_\_\_\_\_

Print Name & title: \_\_\_\_\_

By: \_\_\_\_\_ Date: \_\_\_\_\_

Print Name & Title: \_\_\_\_\_

By: \_\_\_\_\_ Date: \_\_\_\_\_

Print Name & Title: \_\_\_\_\_

Date: \_\_\_\_\_

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