

SBA 504 1st Mortgage Wholesale Solutions



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CDC Capital Markets

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WHOLESALE SBA 504 1ST MORTGAGES

Background



- Ken Rosenthal: CDC Small Business Finance Sr. Loan Officer since 1991: Funded over 1,000 504 loans exceeding \$2 Billion
- CDC Capital Markets: wholly owned subsidiary of CDC Small Business Finance...nation's largest SBA 504 CDC
- Education & Training nationwide to promote SBA 504 lending and wholesale SBA 504 1st mortgages
- Morgan Stanley contract with CDC Capital Markets since 2010
- Former NADCO Director and current NADCO Trainer of Sales and Marketing

SBA 504 – owner user commercial real estate



- Straight Purchase of existing building
 - Business must occupy 51%
- Purchase of existing building and improvements
 - Business must occupy 51%
- Construction of new building
 - Business must occupy 60% initially, 80% in 10 years
- 504 Debt Refi
 - Refinance existing owner user commercial real estate loan

Equipment with long useful life is eligible for the program, but no wholesale players

SBA 504 - Fundamentals



- Bank 1st mortgage: 50% of project
- CDC/SBA 2nd mortgage: 40% of project
- Borrower Cash: 10%

- CDC/SBA portion is 25 year fully amortizing fixed rate loan currently at 2.5% effective rate
- Bank portion can be funded by commercial lender or wholesale 1st mortgage partner

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SBA 504 program – Size of CDC/SBA portion



- \$5 million for standard projects
- \$5.5 million for Manufacturers or Production/Conservation Energy usage
- Bank does not have a loan ceiling in a 504 project – Typical max LTV of 60-65% for 1st mortgage

Typical project range \$250,000 - \$20,000,000

Who qualifies for SBA 504?



- For-profit businesses
- Operating in U.S.
- Tangible net worth (including affiliates):
Up to \$15 million
Up to \$5 million: 2-year net profit after tax average
- Use SBA 7(a) size standards by NAICS (# of employees or annual revenue)
 - EX: manufacturer with less than 750 employees

504 structures



- 50/40/10 Breakdown: Standard
 - Bank at 50% 1st position, CDC/SBA at 40% 2nd position
 - 10% borrower injection
- 50/35/15 Breakdown: Single purpose or start up
 - Bank at 50% 1st position, CDC/SBA at 35% 2nd position
 - 15% borrower injection
- 50/30/20 Breakdown: Single purpose & start up
 - Bank at 50% 1st position, CDC/SBA at 30% 2nd position
 - 20% borrower injection

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Third Party Lender



- First Mortgage lender rates and terms
- Must have call no less than 10 years
- Typically 25 year amortization due in 10 years
- Can be other iterations: 30 years, 25 years, 20 years, etc.
- Rates variable and fixed: up to 25 years
- Rate dependent on quality of the deal

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Who do you market to?



- Commercial Real Estate Brokers
- Existing bank clients
- Other bank's clients
- Accountants
- Mortgage Brokers
- Business and real estate attorneys

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Why use wholesale SBA 504 1st mortgage market



- Beat lending competition and maintain full client relationship
- Offer Up to 25 years fully amortizing loans
- Offer Interest rates fixed for up to 25 years
- Earn Premium Income with Infinite return on investment
- SBA 504 Originations,
- Refi Existing SBA 504 1st mortgages
- SBA 504 Debt Refi program
- Do out of market deals nationwide
- Eliminate legal lending limit issues to a single borrower
- Satisfy customer needs while not affect your balance sheet

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How is this used as marketing tool?



- Ability for community bank to beat large regional and or national lenders to win deals and clients
- Maintain existing client relationship and offer new product
- Attract new customers to the bank with addition of new product offerings
- Use defensively to stop other lenders from stealing your clients
- Use offensively to attract new business to the bank
- YOU maintain all banking relationships

Key Items for Discussion

- ❑ Key Players
- ❑ Collateral types
- ❑ Minimum and maximum loan amounts
- ❑ Maximum loan to value requirements
- ❑ Caps on premiums
- ❑ DSCR requirements
- ❑ FICO requirements
- ❑ Prepayment Penalties
- ❑ Direct Table Funding vs. Loan Purchase
- ❑ Interim loan and construction
- ❑ Process time frame of the process
- ❑ Process for appraisal and environmental reports
- ❑ Involvement with the borrower themselves and the CDC

Multi purpose A credit Players



CDC Capital Markets, representing Morgan Stanley

Nationwide 504, Multi purpose properties only

"A" credit deals, "A" rates

Ken Rosenthal, Sr. Advisor 858-967-7817 krosenthal@cdcloans.com

CIT Bank

California only – 504 & conventional, mostly multi purpose, strong rates

Shiloh Hall 760-212-9369 Shiloh.hall@cit.com

Zions Bank

Almost nationwide, 504 & conventional, mostly Multi purpose properties

"A" credit deals, "A" rates

Blake Zumbrunnen 801-979-0994

blake.zumbrunnen@zionsbank.com

All Property Types & Wider Credit Box



Avana Capital

Nationwide 504, Multi & Single purpose, interim and construction loans, wider credit box but higher rates

Matt Hunt, Chief Credit Officer 801-256-6553 Matt@avanacapital.com

Fountainhead Capital

Nationwide 504, Multi & Single purpose, interim and construction loans, wider credit box but higher rates

Chris Hurn, CEO 407-466-7568 chris@fountainheadcc.com

Thomas USAF

Rural 504 loan program

Vasu Srinivasan, COO 678-936-2805 vasu@thomasusaf.com

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SBA 504 1st mortgage guidelines



- Direct Table Fund or Loan Purchase
- Maximum 60% LTV on 1st mortgage
- 25 year fully amortizing loans
- First mortgage up to \$7.5 million (larger by exception)
- Pricing: Variable or Fixed rates for 1 year, 3 years, 5 years, 7 years, 10 years, and 25 years
- Pricing options based on LIBOR Index Rates + spread
- Premium based on index rate + spread and prepay
- Max premium = first year PPP

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Guidelines



- Global DSCR 1.2 last fiscal year & interim for “A” credit lenders, 1.0 DSCR for others
- FICO min of 675 - 680 for “A” credit lenders, discretionary for others
- Allowance of 20% principal reduction per year with no penalty
- Interim loan – non bank lender options

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Pricing



Starts with Libor Index

Add base spread for PAR (no premium)

Increase rate by adding to spread – typically earn 1 point

Earn Premium for each 25 bps increase in rate

Additional premium for stronger Prepayment penalties:

**Ability to add to the Origination Fee above SBA required
0.5%**

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Example – 25 year fixed rate



\$10 million 504: \$5 million 1st mortgage

10 Year Libor Index: 1.5% floor

Par Spread: 250 basis pts

Par Rate: 4%

Increase rate: 50 basis points (2% premium)

Borrower Rate: 10 Year Libor Swap + 300 = 4.5%

Prepayment: 10/9/8/7/6/5/4/3/2/1 (1% premium)

Origination Fee: 1.5% = 1% to selling lender + .5% to SBA

Premium: 3%

Total Income: 4% = \$200,000

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Process Logistics



- Call or email with proposed use of proceeds / subject business website / subject property address
- Email Credit Memo and cash flow
- 24 hour pre qualification turnaround time
- Electronic processing to acquire package
- Formal Underwriting: 1 – 2 weeks
- Appraisal and Environmental coordination
- Fund 2 weeks after receipt of closing checklist items

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For More Information



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