

# 2023 Summer Seminar Series





**Welcome  
and  
Thank You!**



# **WBD. Agenda**

**WBD Update**

**3**

**504 Program Overview**

**10**

**Rates, Trends and Process**

**28**

**New to 504 & Case Studies**

**36**

**WBD Service Company**

**50**



4

## WBD Update

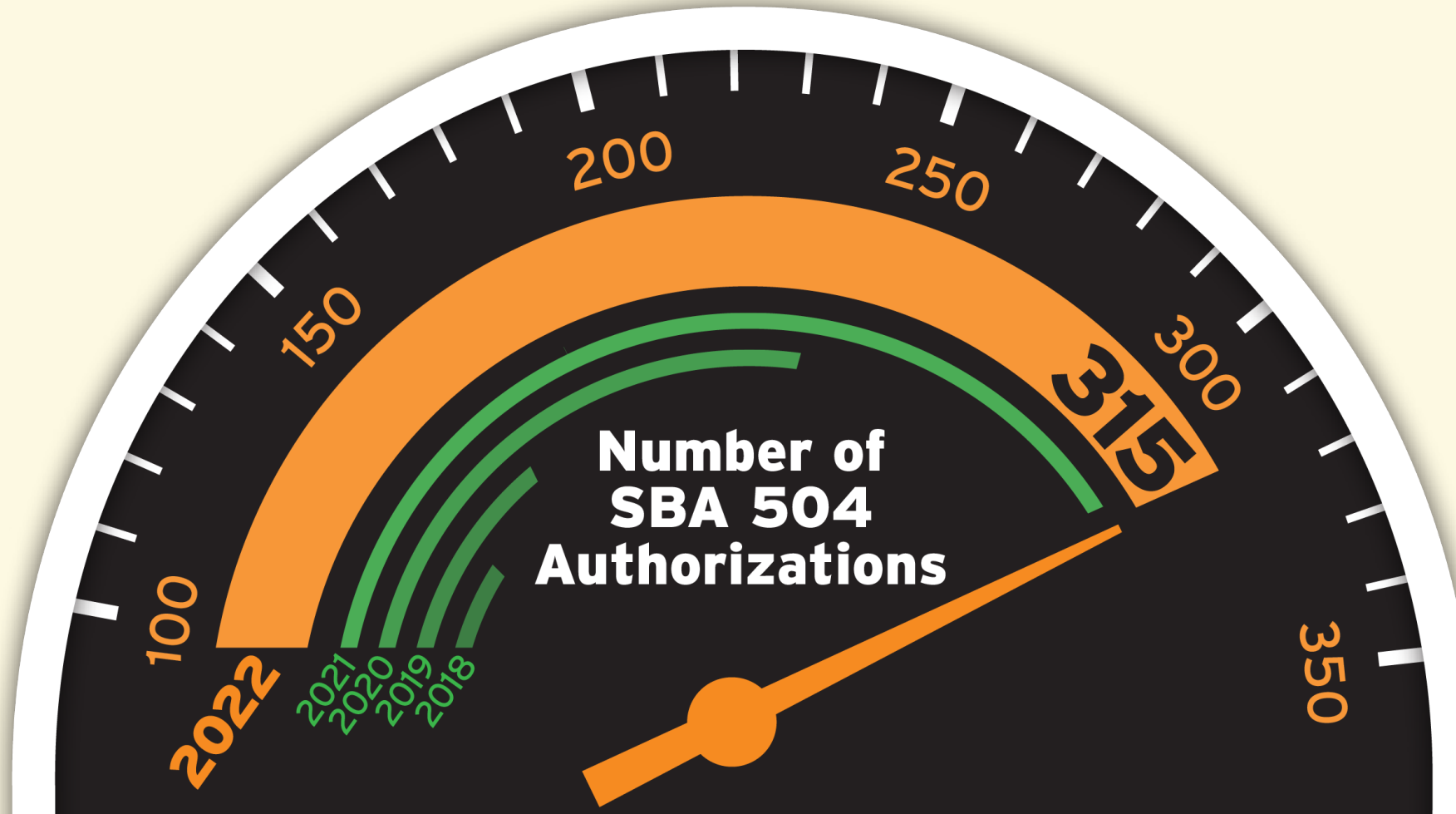
- **Founded 1981, as Wisconsin Business Development Finance Corporation to assist businesses in accessing capital**
- **Mission Driven, Not-for-Profit, SBA Authorized Certified Development Company**
- **Consistently one of the top CDCs in the Country.**  
**In Fiscal 2022 - #7 in the USA.**





5

# Fiscal 2022 was a BUSY Year



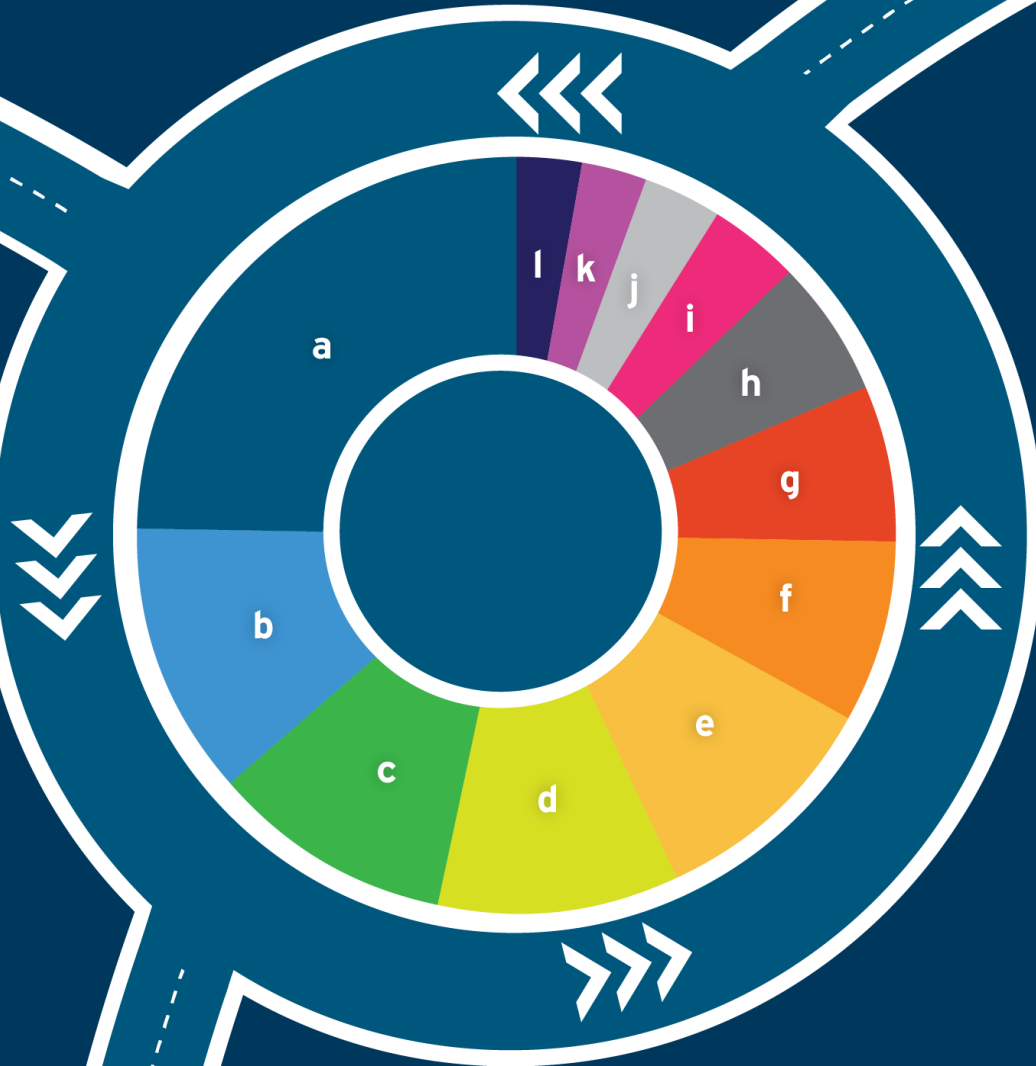
SBA 504  
Authorizations

\$270  
Million

3,018  
Jobs

Created/Retained

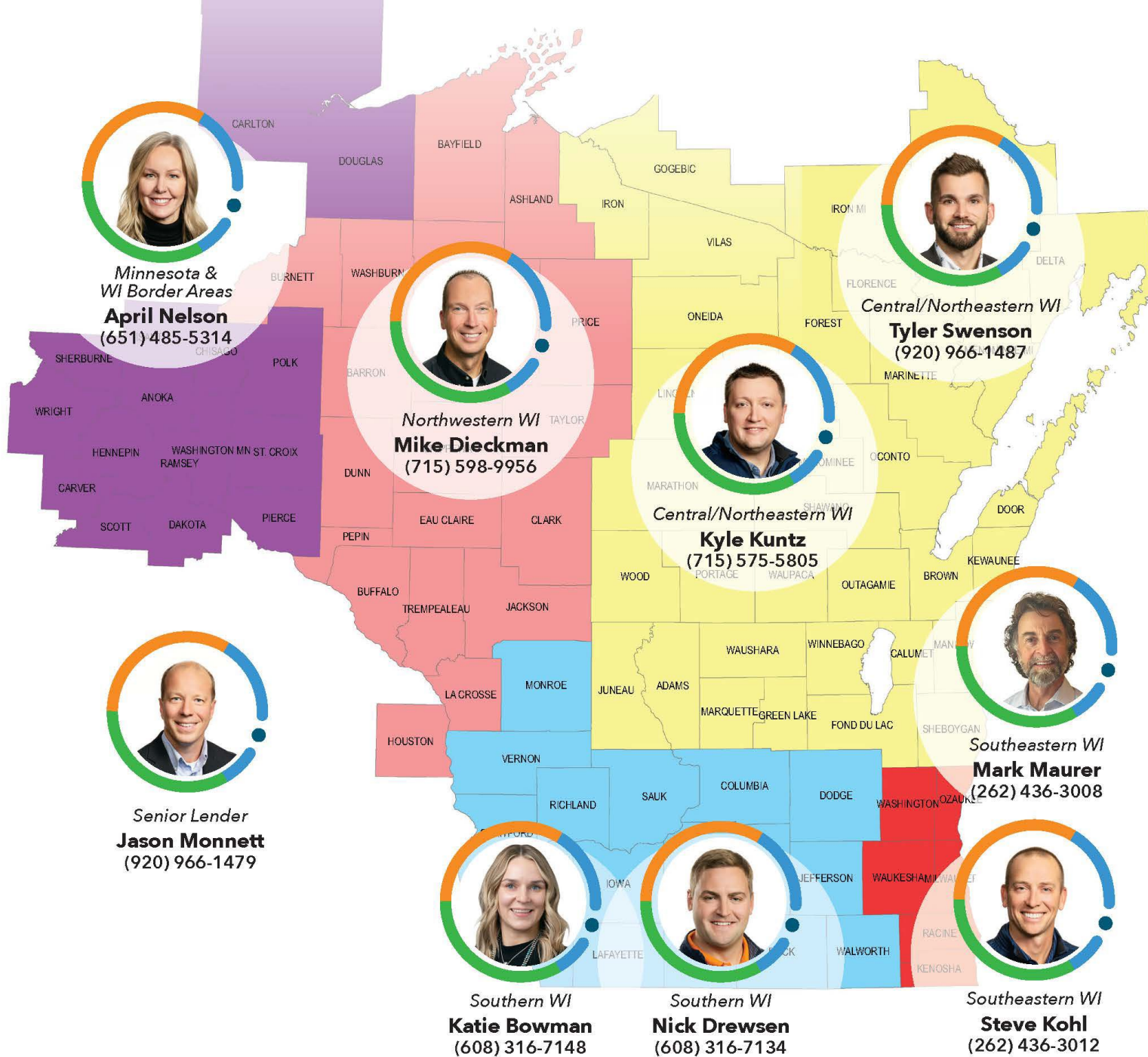
# FY22 Authorizations by Industry



- a. Manufacturing: \$67,341,000
- b. Arts/Entertainment/Recreation: \$32,056,000
- c. Professional: \$27,900,000
- d. Retail: \$27,658,000
- e. Food Service: \$26,695,000
- f. Other Services: \$21,113,000
- g. Warehouse/Transportation: \$18,246,000
- h. Wholesale: \$15,555,000
- i. Self Storage: \$9,866,000
- j. Health Care/Social Assistance: \$8,915,000
- k. Accommodations: \$8,292,000
- l. Other Contractors: \$6,861,000



**Coming Soon:  
Statewide in  
Minnesota!**





**8**

# SBA Partners for 504 and 7(a)

WBD worked directly with

**105**

financial institutions

**222**

lenders

**64** first-time lenders

*The WBD Service Company provides other SBA services to banks who want to help clients with SBA resources, but need some assistance.*

WBD SERVICE COMPANY  
FISCAL YEAR 22

WBD packaged  
**56** SBA 7(a) loans

→ which supported  
**\$54,303,700**  
new business investment

& helped create  
**238**  
new jobs

Active LSP agreements with 124 institutions





9

# FY 22 Grants totaled more than \$420,000

## On the road to MEETING OUR MISSION

With our growing success, we are able to support other organizations doing work aligned with our mission to grow businesses, create jobs and build communities. In 2022, we invested over \$420,000 in these efforts!

WBD's 504 Portfolio Balance at the End of Fiscal Year (millions)

\$688  
2018

\$715  
2019

\$790  
2020

\$843  
2021

\$954  
2022



**ENTREPRENEUR FUND (EF)** - WBD is continuing a multi-year engagement with the EF. Our last investment helped initiate and identify potential participants for a business accelerator program in the Northern WI/Duluth/Iron Range area, where attracting new businesses can be difficult. The next step is to build out an investor network to support these companies as they scale.



**WISCONSIN ECONOMIC DEVELOPMENT ASSOCIATION (WEDA)** - Providing major sponsorship to Wisconsin's Premier Economic Development Association. WBD's support will help develop talent in economic development, provide scholarships for WEDA programs, improve WEDA's visibility and commission a childcare and workforce literature review.



**NEW NORTH** - The New North is the regional economic development hub for Northwest WI. WBD is the sponsor for a regional "Shark Tank" like business pitch contest. Nine county economic development corporations will create six entrepreneurial pitch contests. Winners will advance to the NEW Launch Alliance Regional contest where they will compete for cash prizes. These contests will attract around 50 new and growing companies.



**KIVA - SE WISCONSIN** - WBD will this year help expand KIVA lending to SE Wisconsin. KIVA is a small dollar, crowdfunded financing source. While anyone in the world can access the site, its adoption in any areas takes some time and is greatly enhanced with local staff who can spread the word and help people get started. WBD is proud to help bring this support to WWBIC and grow another KIVA community.



**WISCONSIN VETERANS CHAMBER** - Helping construct the nation's first veteran job board connected to the system used by the service during discharge. WBD is a major sponsor of this effort to engage businesses looking for employees and connect them with the 3000+ people leaving the service for our area each year.



OUR FISCAL YEAR 2022 MISSION DESTINATIONS

**WBD Portfolio tops \$1 Billion!**  
-May 31, 2023



# **SBA 504 Overview**

**11**

# SBA 504 Overview

Economic development loan program, **jointly provided by lenders and Certified Development Companies (WBD)**, offering eligible borrowers:

---

**Uses** Fixed asset financing- equipment and owner-occupied real estate- AND debt refinancing

---

**Lower Down Payment** Low down-payment -as low as 10%

---

**Fixed rates** Long-term, below-market, fixed rates - fixed for 10, 20 or 25 years

---

**Structure and Size** Fully amortizing loans, no balloon payments  
504 loans up to \$5.0MM/\$5.5MM  
Project size greater than ~ \$500,000





12

## What Works?

### The 504 “Sweet Spot”

Owner  
Occupied  
Real Estate

Equipment

Projects over  
\$500,000





**13**

## **Eligible Businesses – Lots!**

- ✓ **Must be organized **for profit****
- ✓ **Can be either a **new or existing** business**
- ✓ **Must be ‘small’ per SBA 504 size standard (including Affiliates)**
  - ✓ **Tangible **Net Worth** ≤ **\$15MM** and**
  - ✓ **2-year **Average Net Income** ≤ **\$5MM****
- ✓ **Ineligible business types include:**
  - ✓ **Non-profits; Real estate investment properties; gambling; etc.**





**14**

# Eligible Use of Funds

## Eligible

- **Owner Occupied Commercial Real Estate**
- **Equipment** (including shipping and installation costs)
- **Project Related Eligible Soft Costs**
  - Professional Fees
  - Appraisal & Environmental Reports
  - Interim Interest
- **Refinance w/ Expansion**
  - Up to 100% of expansion costs
- **Permanent Refinance Program**

## Ineligible 504 Costs (but 7(a) eligible)

- Working Capital; Inventory; Other Current Assets
- “Goodwill”; Other Intangible Assets

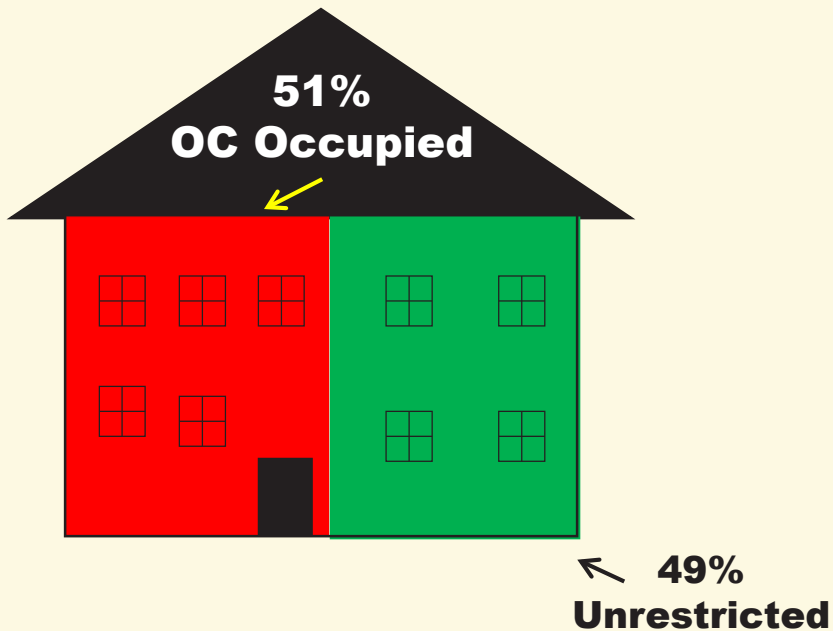




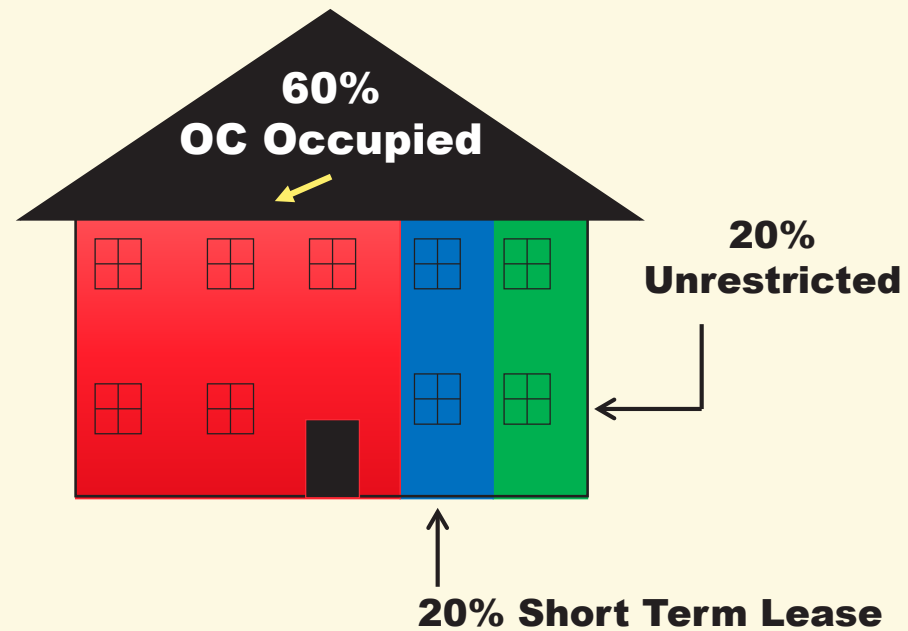
15

# Eligibility Occupancy Rules

## Existing Real Estate



## New Construction



Borrower must begin occupying this space in Year 3 and occupy it by Year 10

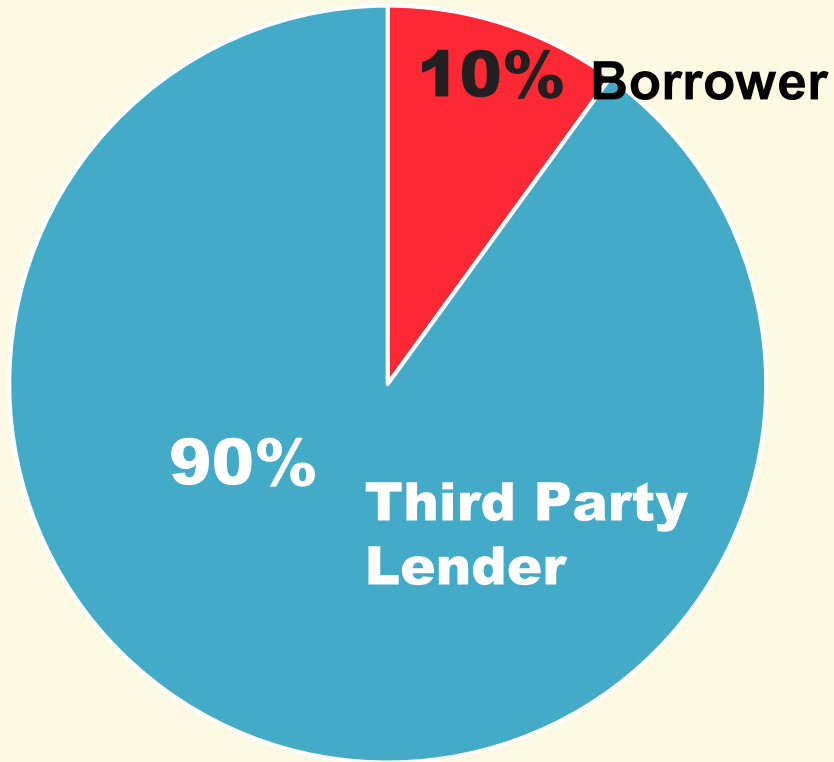
Rentable Property in both cases may also include exterior space, not including parking, used by the business; e.g. storage yard for contractors, trucking companies, landscapers, etc.



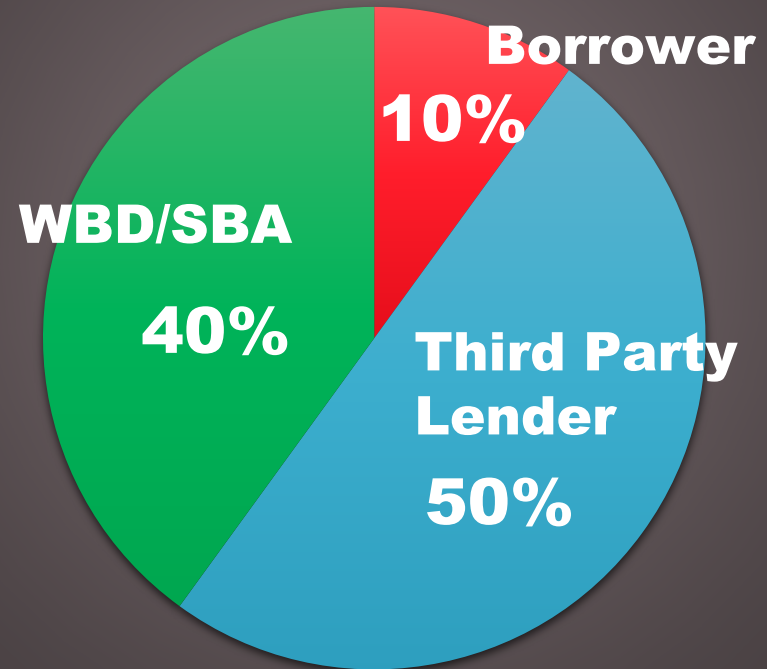


# Typical 504 Structure

## Interim Financing



## Permanent Financing: 50-40-10



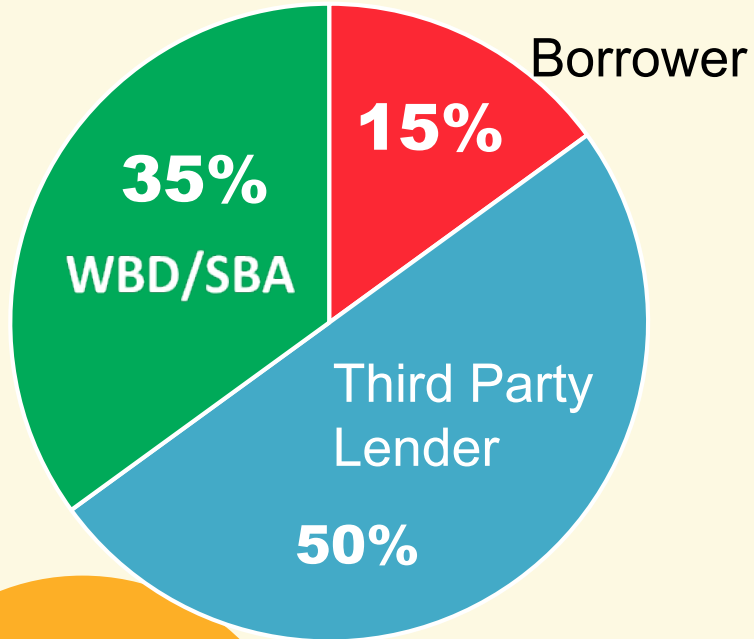
- Third Party Lender's portion is a conventional loan
- Additional collateral may be taken for Interim Financing
- 504 portion has 100% SBA guaranty



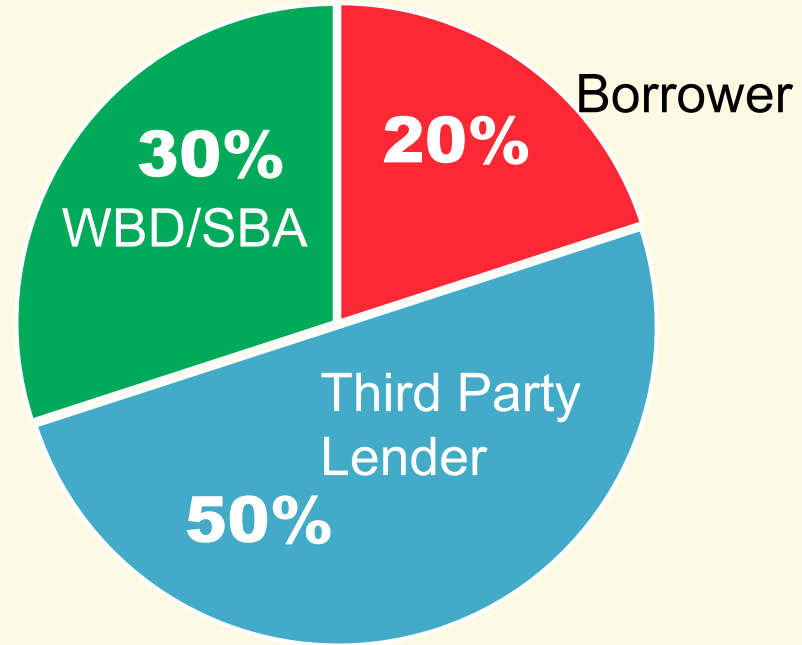


# Special 504 Program Structures

Start-up OR Special Purpose  
50-35-15



Start-up AND Special Purpose R/E  
50-30-20



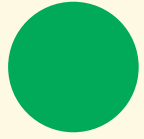
Third Party Lender must be at 50% participation in both scenarios



## Flexible Sources of Borrower Contribution

### Sources of Borrower Contribution:

- **Owner's Personal Cash**
- **Cash from Business Operations**
  - Interim interest
  - Down payments related to eligible project costs
- **Seller Notes, Revolving Loan Funds, Municipal Loans, or TIFs**
  - Borrowed funds (e.g., Seller Note) secured by project assets must have the same term as the 504 debenture
    - If unsecured or secured by other assets - no minimum term or percentage of project requirement
    - No requirements like the 7(a) program
  - Municipal loans with favorable terms may be granted an exception to this "same term" rule
- **Equity in Real Estate**
  - "As Is" appraised value, less existing debt, if owned at least 2 years



# Long Term Financing Commitment

## 20 or 25 Year Debenture (Real Estate or Mixed Use, Some Equipment\*)

- Third Party Lender's loan must have at least a 10-year maturity
- Mixed-use projects (R/E & Equipment) if real estate is largest component
- \*Equipment if useful life is documented to be 20 or 25 years

## 10-Year Debenture (Equipment)

- Third Party Lender's loan must have at least a 7-year maturity

## Amortization of Third-Party Lender loan

- Amortization does *not* have to match the Debenture term





**20**

# What Can Be Refinanced?

## Time in Business

Business must have been operating for at least two years

## Qualified Debt

**All Refi  
loans must  
include  
Qualified  
Debt!**

- ✓ Loan(s) was incurred at least **6** months prior to application date
- ✓ No modifications within the past **6** months
- ✓ At least **85% of original use of proceeds being refinanced was used to acquire a 504 eligible asset** which will secure the proposed 504 refinance project

## Government Guaranteed Debt

**SBA 7(a), 504, and USDA B&I loans are refinance eligible** subject to certain requirements, including a 10% cash flow savings

## Other Items

- ✓ Copy of note(s) being refinanced, and corresponding collateral documents must be provided
- ✓ SBA still requires a loan history / transcript of account for the prior 12 months – Payment currency is now a credit decision vs. an eligibility determination



**21**

## Debt Refi - LTV Requirements

**All Structures are Based on Appraised Value**

### **Straight Refinance of Qualified Debt**

- **90% LTV**
- **Based on a current appraisal**

### **Refinance of Qualified Debt **with Cash Out****

- **85% LTV**
- **Based on current appraisal**
- **Cash out amount cannot exceed 20% of the appraised value**

**\*NEW\*** Effective August 1, 2023 WBD/SBA can waive liens on FF&E originally financed as part of the refinance project, if real estate appraisal provides adequate value



22

## Debt Refi – Cash Out for Business Expenses

### **Eligible Business Expenses = operating expenses of an eligible Operating Company**

- **Payoff/pay down an operating LOC –**  
Borrower needs to certify funds were not used for capital expenditures
- **Expenses** such as salaries, rent, utilities, inventory, etc. credit card debt in business name
- **Expenses incurred but not paid** prior to the date of SBA application
- **Expenses that will come due** within 18 months of application date

### **Ineligible Business Expenses include:**

- **Partner buyout, business acquisition**
- Paying off **existing loans, expand building footprint, purchase additional fixed assets, "upkeep and maintenance"** expenses, such as new roof, repaving parking lot, flooring, redecorating, etc



# SBA 504 Loan Approval Process

## WBD Approval

- Loan Amount & WBD's internal credit scoring determines approval process:
  - Daily Management Approval Process
  - Weekly Loan Committee Approval Process

- Application Submitted via E504
- SBA turnaround time normally ~5 business days or less
- Can receive approval **subject to** a clean environmental report & acceptable appraisal (w/ the exception of 504 REFI).

## SBA Authorization

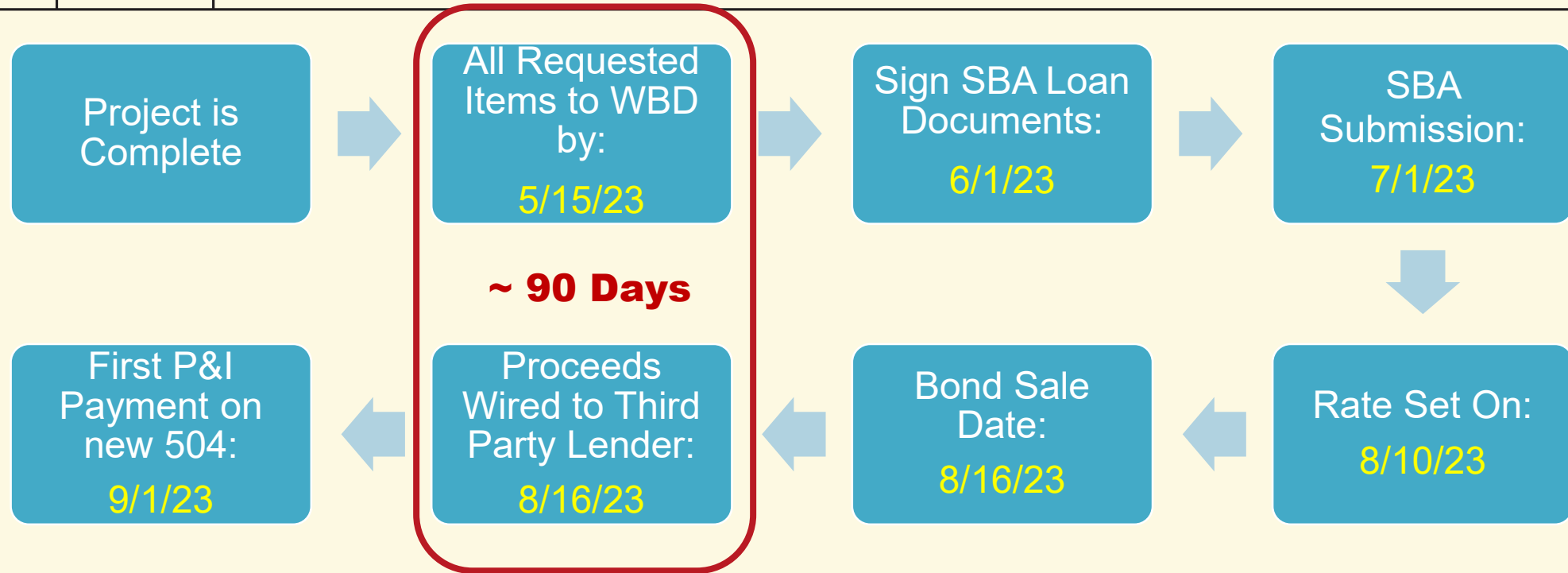
## Lender Approval

~ 4 Weeks from **complete** application



24

# 504 Funding Timeline



## When is a Project Complete?

### Straight Real Estate Purchase / Refinance:

- ✓ Third Party Lender closes on the purchase or refinance

### Construction Project:

- ✓ Construction is complete and final draw has been disbursed
- ✓ Certificate of Substantial Completion is signed off on by the General Contractor
- ✓ Clean Occupancy Permit (if applicable) has been issued by municipality





**25**

# **Faster Process in 2023!**

## **SBA Turn Times**

Currently  
2.4 business days  
for “Regular”  
504 loans

## **ALP Express**

WBD makes credit  
decision for eligible  
projects with loans  
\$500M or less.

**SBA turn times are even  
better for ALP Express!**

## **Simultaneous Closing**

Available for purchase &  
refinance projects.

**Note: Interim funding  
still required for ~45  
days**





26

# 504 Borrower Benefits



Less  
Down

**Preserve  
working capital  
with lower  
down payment  
requirements**

Long  
Terms

**An affordable  
payment  
structure,  
with long term  
financing  
commitments**

Affordable  
Rates

**Hedges  
interest rate  
risk on up to  
40% of the  
financing**

Fixed  
Rates

**Collateral is  
limited to  
the project  
assets**

Limited  
Collateral

**Refinance existing 504 loans  
into a new 504 project**

**504 Loans are  
potentially assumable**

**Known declining prepayment  
penalty vs. an interest rate swap**



# 504 Lender Benefits



- Very comfortable 50% LTV
- Reduced Bank Examiner Scrutiny
- Sell structure vs. rate / spread

**Credit  
Enhancement**

**Build  
Relationships**

- Preserve ability to help in future
- Great structure makes happy clients and referrals
- Long term commitments keep customers secure

- Help with asset/liability management
- Can help the bank maintain solid spread on the front-end loan

**Good  
Business**

**WBD Handles  
All the SBA  
Stuff**

- Bank loan - No SBA loan servicing fees
- No monthly SBA loan reporting on its permanent loan



# Rates and Trends



29

# The Rate Discussion



## What Factors into a 504 Rate?

- **10 Year US Treasury Rate**
  - 5 Year Treasury is used for 10 Year Equipment Debentures
- A **“Spread”** which is added to the treasury rate to entice buyers to purchase 504 debentures instead of Treasuries.
  - The spread varies depending on market demand for similar “government backed” investments.
- **504 Servicing Fees** that are paid by the borrower.
  - The effective rate calculation considers these as additional interest payment.

Estimating  
504  
Rates

**20/25 Year Debenture**  
10-year Treasury + 2.60%

**10-year Debenture**  
5-year Treasury + 2.35

These are only approximations  
and are less accurate during  
volatile interest rate times.  
Contact your WBD lender.

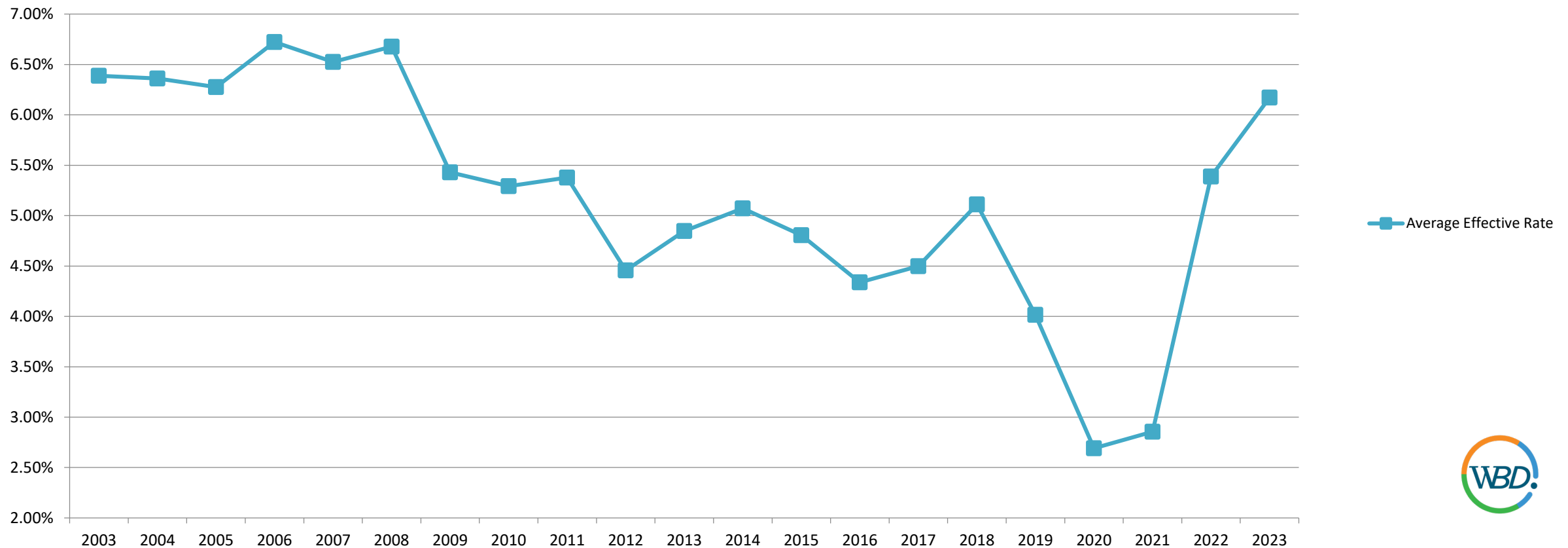
# 504 Effective Interest Rates – May 2023 (and prior months)

**-25 Year - 6.33%** (6.03%, 5.88%, 6.33%, 6.02%, 6.31%, 6.11%, 6.31%, 6.22%, 5.44%, 4.98%)

**-20 Year - 6.39%** (6.08%, 5.96%, 6.34%, 5.99%, 6.29%, 6.04%, 6.23%, 6.13%, 5.34%, 4.89%)

**-10 Year - 6.05%** (6.03%, 6.17%, 6.27%, 5.33%, 4.97% (sold bi-monthly))

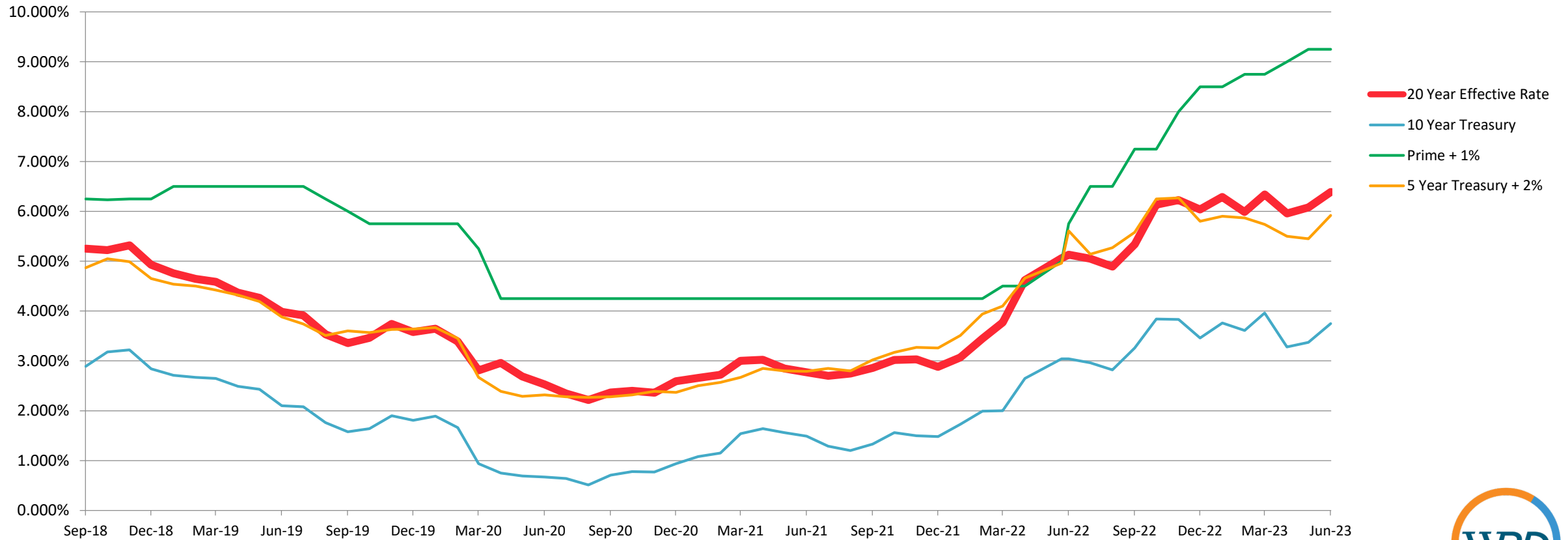
**Average 20 Year Effective Rate**





# A Closer Look – The Last 4 Years

Rate Comparison

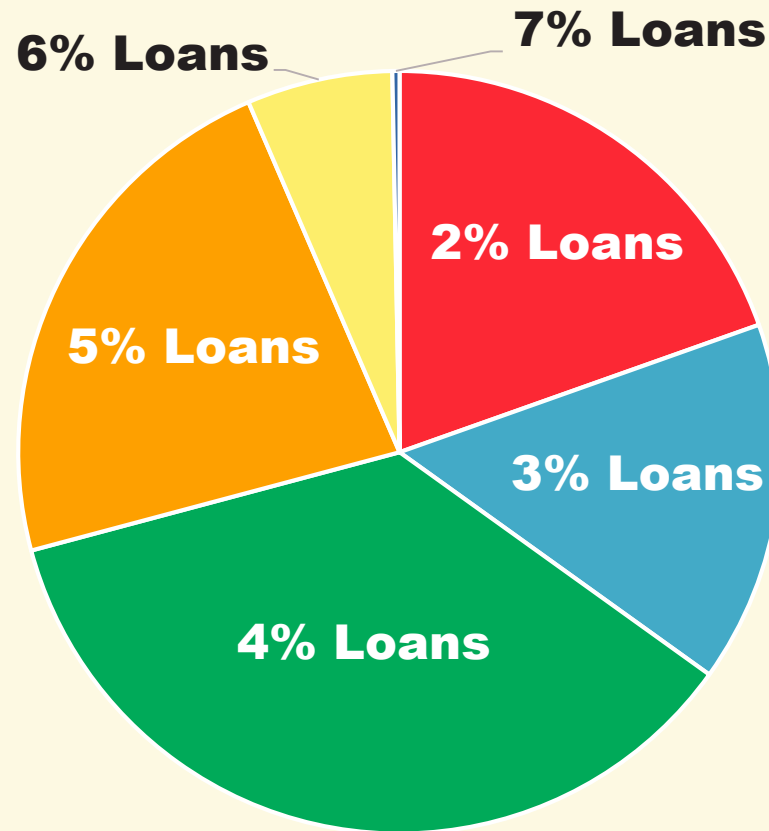




32

**The WBD Portfolio- 70.8% of loans are at 4.99% & below, 93.5% are 5.99% or lower**

### Loans by Rate in WBD Portfolio



**Wow!**

WBD Portfolio 3/31/23			% at or below
Loan Rate	#	%	
2% Loans	323	19.6%	19.6%
3% Loans	253	15.3%	34.9%
4% Loans	593	35.9%	70.8%
5% Loans	374	22.7%	93.5%
6% Loans	102	6.2%	
7% Loans	5	0.3%	
	1650		







33

## Opportunity: Assumptions & Collateral Substitutions

- If you are working on a **project where the seller has an existing 504 debenture**, an assumption by the buyer may be VERY beneficial
  - SBA will NOT subordinate to a larger first mortgage balance in the event of sale
- If existing **504 borrower is relocating**, Collateral Substitutions can be considered to keep existing debenture in place
- **Contact your WBD loan office early** on whenever possible to consider these options!





## Is the “light on” for Hotels? C-Store? Retail? Day Cares? Assisted Living?

- **Yes, to all!** WBD will continue to emphasize management & cash flow in our underwriting.
  - For hotels, we will evaluate against supplemental underwriting criteria (type of flag, age or property, market)
- Contact your WBD Loan Officer early in the process when looking at these COVID-impacted industries



# Have a Unique Industry Request?

**We are not afraid!**

## Recent 504 Projects include:

- Waterfront Resort, Bar & Grill
- Pickle Ball-Focused Bar, Grill & Entertainment Center
- Gymnastics Training center
- Horse Training Facility
- Cheese Converter
- Botox Center
- Vineyard & Winery
- Manufacturer of Scents, Oils & Candles





# **NEW: SBA Rule Changes**



## Recent Changes, Now in Effect

SBA has simplified the principles for determining affiliation

- **Affiliation is now ONLY be determined by OWNERSHIP, NOT CONTROL**
- **SBA Removed Affiliation Based on:**
  - **Management** – No SBA review of management agreements
  - **“Identity of Interest”** – family relations
  - **Franchise & License Agreements** – SBA Franchise Registry is gone
- 504 authorization replaced by “Terms and Conditions” Document

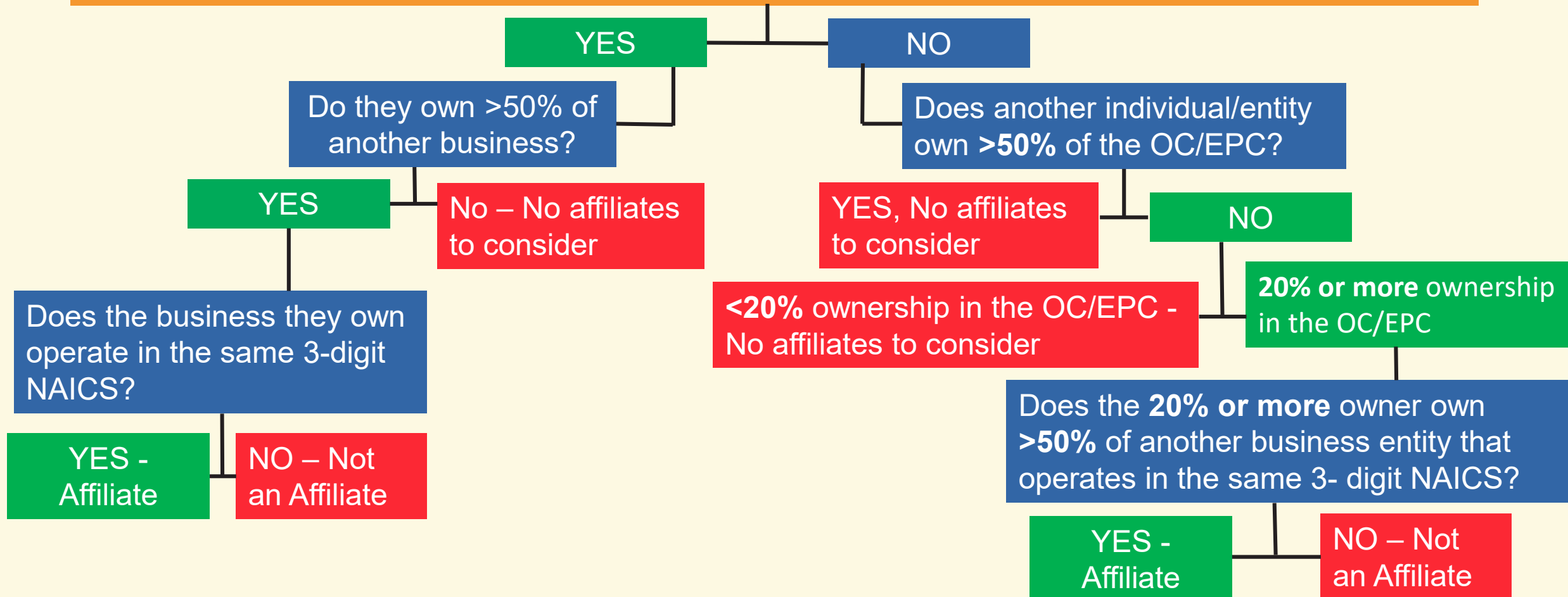




# Affiliation Redefined: For individuals owning the OC or EPC:

**Does the individual own >50% of the OC/EPC (applicant)?**

\*Ownership Interests of Spouse & Minor Children must be combined when determining percentage of ownership





# Affiliation Redefined: For other entities owning OC/EPC

Does the Entity own >50% of the OC/EPC (applicant)?

YES -  
Affiliate

NO

Does another individual/entity  
own >50% of the OC/EPC?

YES, No affiliates  
to consider

NO

<20% ownership in the OC/EPC -  
No affiliates to consider

20% or more ownership  
in the OC/EPC

Does this Entity also own >50% of  
another business in the same 3 digit  
NAICS?

YES -  
Affiliate

NO – Not  
an Affiliate

Does the 20% or more Entity operate  
in the same 3- digit NAICS?

YES -  
Affiliate

NO – Not  
an Affiliate



**40**

## **So you have an Affiliate. Now What?**

### **Same as it ever was...**

- ✓ **Collect 2 years tax returns & debt schedule**
- ✓ **Existing SBA loans to affiliates (not EIDL or PPP) count against available 504 cap**
- ✓ **There may be non-affiliates that impact secondary & personal repayment and therefore require financial information & underwriting (i.e. a Spouse's business that could impact personal financial strength)**





## Coming Soon

**SOP 50-10-5-7** is effective August 1, 2023

The draft that was recently released:

- **Removes** the requirement to evaluate the personal liquidity of owners as part of SBA's "**Credit Elsewhere**" Test
- Changes language about **occupancy requirements** (timing, definition of rentable property)
- In the 504 refinance program, **allows WBD/SBA to waive liens on FF&E originally financed as part of the refinance project**, if real estate appraisal provides adequate value



# What does this all mean to me?

- ❖ **Some streamlining** of info needed & process steps eliminated
- ❖ **More availability for some borrowers** as fewer entities are affiliates and those entity's existing SBA loans may no longer count against the \$5MM 504 Cap
- ❖ **Some industries now carry fewer requirements-**  
Car dealerships, Hotels- with less stringent Franchise & Management Agreement Reviews
- ❖ Stay tuned for further updates from WBD!



# Video Case Studies

**Pesky Appraisal Issues**

**1**

**Lumberg buys Equipment**

**2**

**Wild About Refi**

**3**



**All Roles Played by WBD Loan Officers.**

**They are great loan officers, actors,  
well not so much!**



44

## Appraisal Discussion

**We can help with  
appraisal shortfalls!**

- 10% Leeway Allowed on 504 Project Cost vs Appraisal
- Revolving Loan Funds can be useful Gap Financing-  
and in some cases, qualify as Borrower Contribution



**45**

## **Equipment Discussion**

**Keep 504 in mind for equipment financing.  
Including installation costs & freight!**

- Term / **Amortization determined by the useful life** of the equipment- up to 25 years
- TPL does not need to match WBD/SBA Amortization
- **Lease** for equipment project site, with options to renew, **must match term of WBD/SBA 504 loan**



**46**

## **Refi Discussion**

### **Key Points**

- **85% of original use of proceeds for fixed assets – can also pro-rate soft costs**
- **Written verification** required from existing lender that they cannot modify existing terms
- Cannot refinance **same lender 7(a) loan** unless sold in the secondary market



**We Speak SBA!**  
**WBD Service  
Company has  
your SBA needs  
covered.**



48

## WBD Service Company- Continuum of SBA 7(a) Services

### SBA Support

Full-service back-office SBA support provided under an SBA approved Lender Service Provider Agreement (LSPA)

SBA Support includes:

- 7(a) Packaging
- Guidance & support for
  - Closing
  - Loan Servicing
  - Secondary Market Loan Sales

Cost – Hourly/Project

### SBA Training

WBD provides training & support to move Lender toward bringing its SBA lending function “in-house”

SBA Training for

- Lenders
- Credit Team
- Closing Team
- Servicing Team

Cost – customized fee schedule based upon Lender’s training needs/goals

### SBA Ala Carte

On-demand, customized SBA services & assistance designed to meet Lender’s specific needs

SBA Ala Carte includes

- Packaging
- Closing
- Servicing
- File review
- Training
- On-demand SBA consultation

Cost – Hourly or need based Retainer







49

# Lender Services 7(a) Update

- **Changes now in place and coming for 7(a)**
  - Small 7(a) Loans \$500M or less, “Do what you do” for credit underwriting
  - New rules open partial change of ownership opportunities
  - SBA 7(a) authorization- now set to sunset August 1, 2023 with new SOP effective date





50

# WBD Continues to Grow Outreach!

## Monthly E-newsletters

## Ongoing Ads in Chambers of Commerce

## Social Media



WBD is **your personal guide** to SBA financing... **That's the point!**

**Affordable, Fixed Rate, Commercial Financing, with LESS DOWN**

Financing Commercial Equipment **and THE INSTALLATION COSTS...**

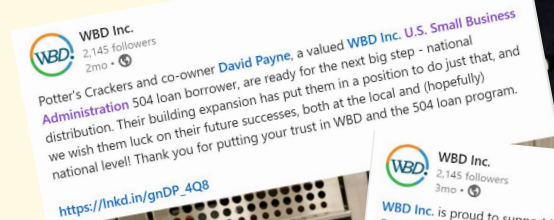
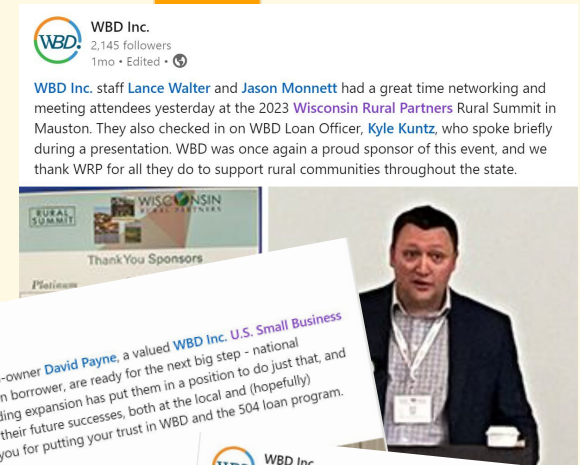
**WBD. That's the point**

[Find out more](#)



**HIGHER 504 LOAN LIMITS ARE AVAILABLE FOR MANUFACTURERS AND GREEN ENERGY PROJECTS**

Do you have a borrower that is running up against the SBA loan limits of \$5,000,000? If





51

# We are ready to Co-Brand with You!

All of our ads ask people to call WBD

OR

“Ask your local lender about the 504 option.”

Are you ready?

Contact Darren Paul  
dpaul@wbd.org

## Check out the SBA 504 loan! Because Smart Business is Knowing Your Options

### Affordable

- Long-Term Fixed-Rate (10, 20 or 25 Years)

### Commercial Financing

- Owner-Occupied Real Estate
- Large Equipment

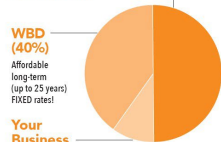
### with Less down!

- Most Projects Only 10%!

#### How it Works

The 504 loan works in partnership with Lake Ridge Bank to reduce your costs and their risk.

#### Lake Ridge Bank (50%)



#### Your Business (10%)

Low down payment - typically only ten percent!

#### Key Points

- Works with Lake Ridge Bank.
- For profit businesses only. Most businesses qualify.
- Can be used for:
  - Owner-occupied commercial real estate.
  - Purchase Existing Building - Must Occupy 51%
  - Ground Up Construction - Must Occupy 60%
- Large Equipment with long useful life (10yrs+)
  - Term to match useful life up to 25 years
  - Can finance installation and soft costs
- Program niche is for projects between \$350,000 and \$20 Million.
- We sell our SBA-backed 504 debentures on the Bond Market. The result is great, long-term, fixed rates for you!



## Smart Financing is Knowing Your Options:

See how WBD can make the SBA 504 loan work for you



Darren Parker - VP, Commercial Lending  
(715)847-4019, darren.parker@bankpeoples.com

#### How it Works

The 504 loan works in partnership with Peoples State Bank to reduce your costs and their risk.

#### Peoples State Bank (50%)

#### Key Points

- Most projects



Darren Parker - VP, Commercial Lending  
(715)847-4019, darren.parker@bankpeoples.com

...your goals... program



**Thank you,  
now Beer!**

