



Case Study – Bank/SBA 504 and CRDC Direct Financing Solution

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Capital Regional Development Council

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Revolving Loan Fund-Mission Objectives

Job Creation – One job per \$50,000 loan (only quantifiable job retention)

Property Tax Base Enhancement - Revitalization of vacant or underutilized buildings

Real Estate Development - Impactful/high visibility downtown projects

Strengthen strategic relationships with lenders, developers, municipalities and other mission focused partners

Small Business Lending

CRDC Direct Revolving Loan Fund

- Matching loan funds to partner with other finance options (no more than 50% of project costs)
- Up to \$200,000 (will consider higher loan amounts for strong mission driven projects and with Board Approval)
- Purchase of assets, working capital, refinance
- Merrimack, Hillsborough and Sullivan Counties

CRDC as a SBA 504 Certified Development Corporation

- Traditional Bank - 50% financing
- CRDC (SBA 504) – up to 40% financing
- Up to \$5.0 million
- Purchase of fixed assets
- Eligible Small Business
- New Hampshire – statewide

CarWash - NH

Borrower is looking to purchase and existing business (all assets including real estate) and has limited funds to put down. They have reached out to their local Bank with a request to fund up to 90% of the opportunity. The Bank in turn reaches out to CRDC. The purchase price is \$1.5MM for all assets.

Constraints:

- Special Purpose Property (hard to convert/sell for some other use)
- SBA 504 financing is up to 85% for special purpose properties
- Proposed new owner does not have direct car wash experience
- Proposed new owner only has \$200,000 in liquid assets
- Independent Appraisal required to support purchase
- Other subordinate financing in an SBA 504 project cannot be repaid faster than the 504
- project is located in a City; “not rural”
- purchase involved intangible assets “goodwill”

CarWash - NH

Proposed Solution

<u>Source – Total Purchase</u>	<u>\$</u>	<u>%</u>	<u>Use</u>	<u>\$</u>	<u>%</u>
Senior Lender	725,000	48	Purchase Land & Buildings	1,000,000	67
CRDC SBA 504	507,500	34	Machinery, Equipment, Fixtures	425,000	28
CRDC Direct	72,500	5	Goodwill	50,000	3
Equity	195,000	13	Closing Costs	25,000	2
Total	1,500,000	100	Total	1,500,000	100

Total SBA 504 Project Costs are \$1,450,000 as “goodwill” is not eligible:

Bank \$725,000 = 50% 504 TPC

SBA 504 \$507,500 = 35% 504 TPC (special purpose property limitation)

CRDC Direct \$72,500 = 5% 504 TPC

CarWash - NH

Risks:

Change of ownership - proposed buyer not experienced in the industry.

Industry - car washes in the Northeast are a seasonal business.

Leveraged purchase the SBA 504 loan program combined with additional "gap financing".

Mitigants:

-For the last ten years, the buyer has been a Manager in retail overseeing a staff of 45 employees and has an associate's degree in marketing. The Loan Officer's believes these skills will transition well into the management of the carwash operations and thus does not believe the loan to be a new business.

-Despite the seasonal nature of the carwash industry in New England, this car wash has been in business successfully in the same location for the last 50+ years. The location has a strong following.

-All SBA 504 loans are inherently leveraged combining this with additional CRDC direct financing presents additional risk. The borrower offers personal guarantor strength via the retention of full-time employment outside of the project.

CRDC Mission Objectives

- The retention of 4 positions and the potential hiring of another 5 yields a total job count of 9 over the next two years. Retention is supported in this transaction as a result of the ownership transition and the potential for the business to just close its doors.
- The Bank is not able to lend up to 90% financing under conventional terms (typically 70-75% LTV), the SBA 504 loan program is limited to an 85% LTV. CRDC is looking to further support the project with a direct loan to support the remaining 5% requested in order to strengthen its value in the banking community for gap financing purposes.
- Supporting small business growth and the rejuvenation of real estate in “downtown” which will effectively support increased taxes to the municipality