



Lancaster County Progressions

A Newsletter of the Economic Development Company of Lancaster County

Spring 2011

New Changes to SBA 504 Loan Program Offer Big Benefits (and Refinancing Option) for Small Businesses

Recently enacted changes to the **SBA 504** loan program are putting more capital in the hands of small business owners, and as EDC Finance Corporation president David Nikoloff hopes, “will encourage more entrepreneurs and businesses in Lancaster County to take advantage of this highly attractive financing tool.”

The Small Business Jobs Act of 2010, signed by President Obama in September 2010, is touted by the U.S. Small Business Administration as “the most significant piece of small business legislation in over a decade.” The

Act, which incorporates a number of substantial benefits for all small businesses, includes major enhancements to the SBA 504 loan program.

Key SBA 504 program revisions include:

- **Many more small business owners now qualify to receive SBA 504 loans.** With certain “tests” now eliminated, nursing or assisted-living facilities, companies that lease equipment or household goods, and office suites are, among other business-types, now eligible for SBA 504 financing.

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CNM Auto Repair, Lancaster City

The SBA 504 program assisted Chris Laboy to purchase real estate and new equipment for his startup automotive repair and maintenance center. The new, full-service facility allows Laboy, an ASE Master Certified Technician with more than 20 years of industry experience, to competitively provide the customer service and automotive repair options and services needed by his growing customer base.

Key Elements of the SBA 504 Debt Refinance Program

The 2010 Small Business Jobs Act authorizes the 504 program to **temporarily** allow qualified commercial real estate and equipment refinancing without business expansion. SBA is opening this temporary program **first** to small businesses that have a loan coming due for renewal on or before December 31, 2012.

Eligibility

- This temporary program is for debt refinancing only
- 85% or more of the proceeds of the loan being refinanced must have been used for 504 eligible purposes, such as land, buildings and equipment
- Initially, loans being refinanced must be maturing on or before December 31, 2012
- Loans being refinanced must have been current for the past year with no payment being deferred or past due for more than 30 days
- Debt must have been incurred not less than two (2) years prior to the date the application is received by SBA
- The borrower is asked to show that they currently have one full-time job or full-time equivalent job per \$65,000 borrowed through the debenture
- The senior bank loan(s) and subordinate 504 loan combined may not exceed 90% of the loan-to-appraised value of the fixed assets securing the loan

Borrower's Contribution

The Borrower's 10% contribution may be satisfied by its equity in the Eligible Fixed Asset(s).

Timing

Borrower must close and fund the SBA 504 refinance debenture within six (6) months of loan approval.

Questions?

Contact John Biemiller or Lyle Hosler of EDC Finance Corporation at 717-397-4046.

**SPECIAL EVENT
Register Now!**

**SBA 504 Refinance
Information Meeting
& Breakfast**

April 12, 2011

(see details on back page)

(continued from front cover)

- **Maximum SBA 504 loan size has been permanently increased** from \$2 million to \$5 million for all borrowers and for manufacturers, up to \$5.5 million.
- **The net worth for companies to be eligible for an SBA 504 loan has been increased** from \$8.5 million to \$15 million, with the two-year average net income maximum being raised from \$3 million to \$5 million.

business expansion and job creation goals. (see *SBA 504 Debt Refinance Program Key Elements on front page*)

EDC Finance Corporation, a Certified Development Company (CDC) authorized to provide 504 financing in Lancaster County and throughout Pennsylvania, welcomes the changes. John Biemiller, vice president of EDC Finance Corporation, makes it clear,



Hanover Cold Storage, Inc., West Donegal Township

The SBA 504 program assisted Bill Martel, Jr., owner and president, to construct a new 43,000 sq. ft. addition (inset) to his existing 68,800 sq. ft. cold storage frozen-food facility. This expansion provides needed space for pick-pack production areas, repack vertical form and fill package equipment (above), additional cold storage and new truck docks — all of which allow Hanover to offer more value-added services to customers.

- **The SBA now allows qualified small businesses** to refinance their owner-occupied commercial real estate mortgages and equipment loans into the 504 loan program. This business debt refinancing program is temporary, lasting two years, and is independent of typical

“Since EDC Finance received its CDC designation in 2008 to service the 504 program, we have seen growing interest from local companies and bankers. Fixed interest rates and lower equity requirements are helping companies and projects across Lancaster County.”

SBA 504 FAQs

What is the SBA 504 Loan Program?

According to the SBA, “The 504 loan program is a long-term financing tool designed to encourage economic development within a community. The 504 program accomplishes this by providing small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization.”

A Certified Development Company (CDC), such as EDC Finance Corporation, is a private, non-profit corporation that is set up to contribute to economic development within its community. CDCs work with the SBA and private-sector lenders to provide financing to small businesses, serving as the local contact to administer the loan program.

The SBA504 loan program provides financing for major fixed assets, such as owner-occupied real estate and long-term machinery and equipment. The funding involves the following three sources:

- a loan secured from a private-sector lender with a first lien covering at least 50% of the project's cost
- a loan secured from a CDC (backed by a 100% SBA-guaranteed debenture) with a second lien covering up to 40% of the project's cost
- a contribution from the small business being financed of at least 10% of the project's cost (equity)

How can funds be used?

SBA 504 loan funds must be used for fixed-asset projects, such as:

- The purchase of land, including existing buildings
- The purchase of improvements, including grading, street improvements, utilities, parking lots and landscaping
- The construction of new facilities or modernizing, renovating or converting existing facilities
- The purchase of long-term machinery and equipment

What are the benefits of an SBA 504 Loan?

Nearly any type of for-profit small business that wishes to expand is eligible for the SBA 504 program. Benefits are numerous and include:

- Financing available for up to 90% of the project costs
- All project costs can be financed, including acquisition (land and building, land and construction of the building, renovation, machinery and equipment) and soft costs (title insurance, legal, appraisal, environmental and bridge loan fees)
- A lower down payment (10% of the project cost rather than 20% equity generally required by conventional bank financing), enabling the business owner to conserve working capital and retain liquidity to meet operating needs
- Equity contribution may be in the form of cash, real estate, subordinate debt and others
- Fixed interest rate for 10 or 20 years, allowing the entrepreneur to plan with predictable monthly payments
- Interest rate is usually at or below the current market rate
- Up to 80% of the debenture closing costs and fees are capitalized, reducing out-of-pocket cash requirements
- Funding is serviced locally by the authorized CDC, EDC Finance Corporation



White Oaks Veterinary Hospital, Rapho Township

The SBA 504 program assisted veterinarians Drs. Lauren and Ronald Lane to construct a new 5,600 sq. ft. veterinary hospital that more than doubles the size of their previous 2,500 sq. ft. aged facility, originally built in 1953. The new hospital project, located on their current premises, allows the Lanes to expand their veterinary services and meet increasing customer needs in the Manheim and surrounding areas.

SBA 504 Myths Debunked

With its roots going back to the Great Depression and World War II, the U.S. Small Business Administration (SBA), which was created in 1953, has offered many programs to stimulate small business expansion and community economic development via job creation, business growth and increased tax revenues.

For a variety of reasons over the

years some of these programs have garnered criticism. Today, due to increased accountability and newly implemented efficiencies, these criticisms no longer apply, especially regarding the SBA 504 program. Below are some of the most common misconceptions of SBA 504 loans and the reality that EDC Finance Corporation staff has experienced since being designated a Certified Development Company in 2008.

Myth	Reality
SBA is the 504 lender	EDC Finance Corporation is the lender
Businesses must be a poor credit risk	Business health and credit worthiness are required
Approvals take a long time, perhaps as long as one year	Local CDC and technological innovations make for quick and efficient approvals
Too many fees	Reasonable fees for benefits received
Loan rates are high	504 loans nearly always have fixed, competitive rates
Much paperwork and red tape involved	Documentation has been streamlined and is often identical to other lenders
Government bureaucracy is a nightmare	Local customer service – small business deals only with EDC Finance Corporation, the local CDC

FOR MORE INFORMATION:
Contact EDC Finance’s John Biemiller or Lyle Hosler to see if the SBA 504 or other loan programs could help you with your next project. Visit the EDC Finance Corporation web site at www.edcfinancecorp.com. Click on Financing Programs, then SBA 504.

EDC FINANCE E-NEWSLETTER:
EDC Finance distributes an e-newsletter with timely information and updates concerning business financing programs and projects. To subscribe, email info@edcfinancecorp.com. Add this address to your address book to prevent the newsletter from being blocked.

Other News from EDC

EDC Partners with SACA to Strengthen Southeast Neighborhood



EDC is pleased to have partnered with the SACA Development Corp. on its most recent project to strengthen Lancaster City’s Southeast. EDC and other private and public organizations, including Fulton Bank, the City and County of Lancaster, PA Dept. of Community & Economic Development and other funding sources, provided SACA Development with \$3.1 million to construct 13 townhomes on North and Locust Streets. While the project encourages home ownership by providing affordable housing, it has redeveloped and improved nearly an entire residential block near the growing business district in the Southeast. Construction is expected to be completed in March with all 13 townhomes sold by the summer of 2011.

New 2011 Leadership on EDC Board



New 2011 EDC Board members Jan Bergen (LGH) and Rupert Taylor (Warfel Construction Company) flank the new EDC Board officers Randall Horst (Horst Group), chair, and John Cox (Turkey Hill Dairy), vice chair. Horst and Cox began their two-year term of volunteer service on January 1.

100 South Queen Street | P.O. Box 1558
Lancaster, PA 17608-1558
717-397-4046 | edc@edclancaster.com
www.edclancaster.com www.edcfinancecorp.com

EDC, EDC Finance Corporation Staff

David K. Nikoloff
President

John W. Biemiller
Vice President

Lyle D. Hosler
Project Manager

Jean K. Rehrig
Portfolio Manager

Annette E. Bart
Manager; Communications & Special Projects

Tara L. Claudio
Manager; Business Retention & Expansion

Janet L. Foster
Administrative Assistant

WHAT'S ON OUR CALENDAR?

*Watch for more details
in the coming weeks*

SPECIAL EVENT – Register Now! SBA 504 Refinance Information Meeting & Breakfast

Tuesday, April 12, 2011 7:30 a.m. – 8:30 a.m.
Lancaster Country Club, 1466 New Holland Pike

An information seminar for all who are interested (especially business owners, bankers, accountants and attorneys) in learning about the temporary SBA 504 refinance opportunities. A Q&A session and free breakfast are included.

Mid-year Update Luncheon: Joint Boards of Directors and EDC Membership

Friday, June 10, 2011 12:00 Noon – 1:30 p.m.
Bent Creek Country Club, 620 Bent Creek Drive

EDC and EDC Finance Corporation Boards invite EDC Membership to join them and learn about the year-to-date activities of the organizations. Come hear all about the projects and programs that your dues and dollars support!

EDC Membership's 7th Annual "Dinner & A Game at the Ballpark"

Thursday, August 11, 2011
Clipper Magazine Stadium, Wheatland Suite

EDC Board of Directors invites EDC Membership to a casual evening that includes networking, dinner and a ballgame in the Wheatland Suite at Clipper Magazine Stadium.