



504 Project Examples



Example One - Equity in Project Sufficient

Appraised Value of Property \$600,000

Outstanding Balance of Debt \$500,000

The value of the collateral securing the project exceeds the outstanding principal balance of the debt. Lien is less than 90% of the appraised value.

TYPE OF LOAN	\$	%	NOTES
Third Party Loan	\$300,000	50.0%	50% of appraised value
SBA 504 Loan	\$200,000	33.3%	Balance of existing debt
Borrower Contribution	\$100,000	16.7%	All equity in project
TOTAL PROJECT	\$600,000	100%	

Note - SBA wants the Third Party Loan at minimum 50% so 504 loan must adjust. In this example, 33.30% versus normal 40%. Bank loan cannot drop to \$260,000 and let the 504 loan max out at \$240,000 (40%).

Example Two - Additional Cash Contributed

Appraised Value of Property \$540,000

Outstanding Balance of Debt \$500,000

The value of the collateral securing the project exceeds the outstanding principal balance of the debt. Lien is equal to 90% of the appraised value with borrower paying additional cash to fund balance of shortfall.

TYPE OF LOAN	\$	%	NOTES
Third Party Loan	\$270,000	50.0%	50% of appraised value
SBA 504 Loan	\$216,000	40.0%	40% of appraised value
Borrower Contribution	\$54,000	10.0%	\$40,000 equity + \$14,000 cash
TOTAL PROJECT	\$540,000	100%	

Example Three - Additional Cash or Side Loan

Appraised Value of Property \$600,000

Outstanding Balance of Debt \$800,000

The value of the collateral securing the project is less than the outstanding principal balance of the debt. Existing lien exceeds the appraised value.

TYPE OF LOAN	\$	%	NOTES
Third Party Loan	\$300,000	50.0%	50% of appraised value
SBA 504 Loan	\$240,000	40.0%	40% of appraised value
Borrower Contribution	\$60,000	10.0%	10% of appraised value
TOTAL PROJECT	\$600,000	100%	

New loan amounts total \$540,000. Pay-off is \$800,000. Gap will need to be funded with additional cash from borrower, side loan from lender, debt forgiveness, or additional collateral.

Example Four - Pledge Additional Collateral

Appraised Value of Property \$600,000

Appraised Value of All Fixed Asset Collateral \$900,000

Outstanding Balance of Debt \$800,000

The value of the collateral securing the project is less than the outstanding principal balance of the debt. Additional collateral is pledged which increases the project size. Existing lien exceeds the appraised value of the project property.

TYPE OF LOAN	\$	%	NOTES
Third Party Loan	\$450,000	50.0%	50% of appraised value of all fixed asset collateral
SBA 504 Loan	\$350,000	38.9%	Balance of existing debt
Borrower Contribution	\$100,000	11.1%	All equity in project
TOTAL PROJECT	\$900,000	100%	

Example Five - Excessively Over-Collaterized

Appraised Value of Property \$800,000

Outstanding Balance of Debt \$400,000

The value of the collateral securing the project greatly exceeds the outstanding principal balance of the debt to be refinanced - to the point that there is no eligible debt refinancing project.

TYPE OF LOAN	\$	%	NOTES
Third Party Loan	\$400,000	50%	50% of appraised value
SBA 504 Loan		0%	balance of existing debt
Borrower Contribution	\$400,000	50%	all equity in project
TOTAL PROJECT	\$800,000	100%	

Example Six - Over-Collaterized w/Eligible 'Other Expenses'

Appraised Value of Property \$600,000

Eligible 'Other Expenses' \$20,000

Total Eligible Project Costs \$620,000

Outstanding Balance of Debt \$500,000

TYPE OF LOAN	\$	NOTES
Third Party Loan	\$310,000	50% of appraised value
SBA 504 Loan	\$210,000	balance of existing debt
Borrower Contribution	\$100,000	all equity in project
TOTAL PROJECT	\$620,000	

In this example, 504 participation is limited by the balance of the existing debt.

NOTE* *the total of the combined Third Party and 504 Loans still does not exceed 90% of the appraised value consequently, we are able to include eligible 'other expenses.'*

Borrower contribution, through equity, still exceeds the 10% minimum.