

Bankers Weekly

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News You Can Use



January 2008
504 Interest
Rate
6.14%

For more information contact:

Essential Capital Finance, Inc.

An SBA Certified

Development Corporation

1300 Riverplace Boulevard

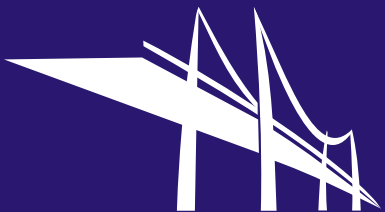
Suite 105

Jacksonville, FL 32207

904-398-9411

Fax 904-398-4995

www.essentialcapital.net



ESSENTIAL CAPITAL FINANCE, INC.
Moving business forward.

SBA 504 Loan Program

Loan Presentation, Underwriting, and Processing

Banks differ in how they present 504 loans as an option to borrowers. Some banks will present a cost and term sheet comparing a 504 loan with other potential products, such as the SBA 7(a) loan and/or a bank's conventional commercial loan products. Others will first look to fit a borrower's needs into a conventional loan product and offer the 504 loan if the borrower does not qualify.

Typically, the bank and CDC perform simultaneous underwriting for the credit each provides, although sometimes a bank will contact a CDC after it has conducted its own underwriting. In analyzing a potential loan, banks and CDCs look at traditional underwriting criteria, including management and cash flow. The bank and CDC may contact each other during the underwriting period to discuss any concerns that each may have with the project.

Some banks maintain a separate credit policy for 504 loans, with differing requirements for 504 loans than other small business loans, because of the lower credit risk afforded by a lower LTV on the 504 loan. For example, the policy may relax cash flow requirements for the loan, reducing the typical debt service coverage requirement from 1.25 to 1.15 (cash flow/debt service). The policy also may allow borrowers to use projections, instead of historical cash flow, to justify repayment.

Article courtesy of the Comptroller of the Currency Administrator of National Banks, Community Development Magazine, February, 2006 Insights issue. For more information visit their website: www.occ.treas.gov/cdd/CD.