

First Mortgage Lender Tips For The SBA 504 Loan

Texas Certified Development Company (*TxCDC*) has a long and impressive track record in helping bankers work with their small business clients to qualify for SBA 504 loans, also known as the Real Estate Advantage Loan (REAL). After analyzing the entire process for qualifying for an SBA 504 loan, our staff members offer these valuable tips to help bankers and their clients avoid “pot-holes,” deal killers and delays:

- 1.** The first mortgage and the SBA net debenture are two separate notes. After final funding, each note is serviced by the bank and *TxCDC*, respectively.
- 2.** Before or during the bank’s interim financing, the bank should prepare for the SBA’s take-out closing by:
 - a. Confirming that SBA’s approval and authorization have been received; and
 - b. Confirming that all terms and conditions of SBA’s authorization can and will be met prior to requesting take-out funding.
- 3.** The portion of the interim loan to be refinanced should be equal to the SBA net debenture, not the SBA gross debenture.
- 4.** The first mortgage note and loan documents must not include cross-collateralization, early call features, payable on demand, cross-default or any other provisions which allow the bank to make demand prior to maturity unless the first mortgage is in default.
- 5.** The appraisal must be addressed to the bank and include the SBA as an “intended user.”
- 6.** The bank’s interim loans, which include the bank’s first loan and the second loan for the amount of SBA’s net debenture, should not be funded until the bank receives the SBA’s approval of the appraisal, environmental and franchise agreement (if applicable).
- 7.** The borrower’s required contribution (injection) should be properly documented at the time of application and confirmed at the interim loan closing. Evidence of the injection must be sent to *TxCDC* prior to the take-out loan closing.
- 8.** Make sure all loan disbursements are for an SBA-approved eligible project cost.
- 9.** All SBA 504 loans require a third-party lender fee of 0.5% of the bank’s first-lien loan amount. This fee may be passed on to the borrower in conjunction with the interim financing. This fee is due to the SBA at the time of the debenture loan closing, which will be conducted by a closing attorney assigned by *TxCDC*.
- 10.** Life insurance is required on all SBA 504 loans. Life insurance assignments are usually items that hold up loan closings due to health assessment testing or other delays by the borrower and the life insurance company. Therefore, please initiate this process early to avoid possible delays in the SBA loan closing.
- 11.** Detailed documentation must be maintained for all loan expenditures advanced by the interim lender. The interim lender must closely monitor draws, any change orders and contingency disbursements. Additionally, the interim lender should maintain copies of proof of payment associated with appropriate invoices or construction draws. All of the interim loan documentation must be submitted to *TxCDC* for the SBA loan closing. Disbursement of loan proceeds should be done directly to vendors or the bank should require proof of paid invoices before directly reimbursing the borrower.

TxCDC is always ready to assist you in answering any questions
and/or providing any assistance to your borrower.