

SBA 504 Loan Fees Reduced



Great news, the SBA Guarantee Fee was reduced to 0.192% effective 10/1/05 for SBA 504 loans! Do you wonder what other loan fees are involved in a 504 loan? Below is a brief overview of these fees.

Fees to the Borrower:

The following one-time fees (currently about 2.65% of the Net Debenture) are financed in the SBA 504 loan:

- **SBA Guarantee Fee** - This fee (currently 0.5% of the Net Debenture) goes to the SBA for their guarantee.
- **Funding Fee** - This fee (currently 0.25% of the Net Debenture) goes to the Trustee, The Bank of New York, to cover their costs in selling the debentures.
- **CDC Processing Fee** - This fee (currently 1.5% of the Net Debenture) goes to Montana Community Finance Corporation for processing the loan application.
- **Underwriters Fee** - This fee (currently 0.4% of the Net Debenture plus the financed fees above) goes to the underwriters, Merrill Lynch and CSFB, for their work with the debentures.
- In addition, **Closing Costs** (currently \$2,500) may be financed in the 504 loan or paid out of pocket by the Borrower. This pays for the SBA required legal opinion and the Montana Community Finance Corporation closing fee.

The following ongoing servicing fees (currently about 1.042%) are in addition to the principal and interest payment on the Note. These fees are adjusted at 5-year intervals and are based on the outstanding principal balance of the loan. When you phone our office, we will quote you the Overall Effective Interest Rate, which includes these fees.

- **CSA Fee** - This fee (currently 0.1%) goes to the servicing agent, Colson Services Corporation, for servicing the loan.
- **CDC Servicing Fee** - This fee (currently 0.75%) goes to MCFC for servicing the loan. MCFC in turn must pay a guarantee fee of 0.125% to the SBA.
- **SBA Guarantee Fee** - This fee is based on the date the Authorization for Debenture Guarantee was approved and is changed annually (currently the fee is 0.192%). This fee is paid in order to make the 504 Loan Program self-subsidizing.

Fee to the Third Party Lender:

There is also a one-time Third Party Lender fee, which is 0.5% of the Third Party Lender loan. This fee compensates SBA for the senior lender's lien advantage.

Do you have any other questions regarding the 504 loan program? Please contact our office and let us answer them for you.

504 Loans Build Equity for Montana's Small Business

by Elton W. Ringsak
SBA Region VIII Administrator

Will Rogers once said, "We can't all be heroes because someone has to sit on the curb and clap as they go by." The Certified Development Companies in Montana, and across Region VIII, are truly heroes because they play a critical role in providing long-term capital to small business. A recent study by the University of Montana's Bureau of Business and Economic Research showed that strong commodity prices and low interest rates will lead to faster than expected growth in Montana's economy. Increased mining and oil drilling activities, greater than expected increases in new construction, and a boom in home sales account for this positive economic outlook. The study also predicts a healthy 3.4% growth in Montana's economy during 2006. Small firms are going to need new buildings, new equipment, and someone to help finance those purchases. Montana's CDC's are perfectly positioned to meet those expected needs.

Changes to the 504 program have made it more user friendly in rural communities. The modifications allow for more flexible member requirements; provide the CDC's greater authority to approve more non-standard projects, allow expansions in their areas of coverage and eliminate rules requiring a minimum numbers of loans. Now each CDC can serve an entire state if they believe they can and not be restricted by limited geographic areas. CDC's now will compete with each other for business within State boundaries. In addition, some CDC's have met certain SBA criteria to allow them to serve multi-state areas.

The Small Business Reauthorization and Manufacturing Assistance Act of 2004 made other significant changes to the 504 Program as it relates to small manufacturers. One of

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Staff

Linda Kindrick, Executive Director
linda@mtcommunityfinance.org

Jo Ann Jones, Portfolio and Servicing Manager
joann@mtcommunityfinance.org

Sherry Colvin, Loan Closing Officer
sherry@mtcommunityfinance.org

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A Message from the Chairman of the MCFC Board

Paul Johannsen President, First Interstate Bank Whitefish, MT

Just a little over a year ago, Karen Howard, MCFC's Executive Director, notified the board of her acceptance of a position with another Certified Development Company. This event launched an expansive search for a new Executive Director for MCFC. We advertised nationally in a number of forums and received resumes from many qualified applicants. Much to our surprise and delight, one of those candidates came from Helena, Montana. In early 2005 the MCFC board offered the position of Executive Director to long time SBA employee Linda Kindrick. We were delighted to have someone with such long tenure with our SBA governmental partner and so well respected throughout the Montana banking community. Linda just recently celebrated her seven-month anniversary with MCFC.

During the interim MCFC spent approximately six months without a full-time Executive Director. It was a trying time for Sherry Colvin and Jo Ann Jones of MCFC's staff, but with the assistance of Interim Executive Director Martin Olsson, we came through this time with flying colors. Our office continued to originate loans, seek out new business and service our customers without interruption. The Board of Directors wishes to formally acknowledge the outstanding efforts of Sherry, Jo Ann and Martin during the interim period and thank them for their efforts and dedication to our organization.

While the change in leadership in any organization can be unsettling, MCFC used the opportunity to evaluate the organization from an internal operations perspective and our long range planning. We believe the change has been beneficial to our organization and are truly optimistic about the future of MCFC.

While our staff at MCFC has established an excellent reputation and strong network in the Montana lending community, we believe that our greatest opportunities come from our members. By leveraging our relationship with our membership, we create greater occasion to bring our program to Montana's businesses. By expanding our membership in the business and lending community, we can create greater opportunity for Montana's economy. If you are interested in becoming a member of our organization, or know of individuals who may be interested in joining, please provide the names of any potential members to our staff at MCFC or to one of MCFC's board members.

On behalf of the Board of Directors of Montana Community Finance Corporation, we thank you for your continued support of our organization.

504 Loans Build Equity *(continued from pg. 1)*



Elton W. Ringsak

the key changes is that the maximum 504 loan amount to small manufacturers is now \$4.0 million. Because the CDC can lend up to 40% loan to value, meaning that if a CDC can loan up to \$4.0 million, then manufacturers can borrow up to \$10.0 million total. The Act to set forth specific job creation and retention requirements for small manufacturers at one job for every \$100,000 guaranteed by the SBA.

Included in the new legislation, regular 504 loans – those that meet the job creation criteria of one job for every \$50,000 guaranteed by the SBA – increased from \$1.0 million to \$1.5 million. In addition, 504 loans that met public policy requirements (i.e. Dynamic Markets) increased from \$1.3 million to \$2.0 million. All of these changes now recognize the increased cost to the borrower of building or renovating fixed asset structures given today's costs. SBA has also completely staffed the 504 Origination Center in Sacramento, CA and currently processes 100% of 504 loans at that center. Best of all, turn around time is averaging just two days!

I am proud of the fact that of the 695 "504" Loans made in Region VIII during Fiscal Year 2005 – 269 (39%) were made in rural communities; 124 to women; and 75 to minority owned firms. The SBA thanks all of our CDC partners for their continued work in the small business community.

Stahly Engineering and Associates, Inc. - Helena

Stahly Engineering and Associates (SE&A) is a civil engineering and surveying firm established in Helena, in 1970 by J. David (Dave) Stahly. Over the past few years, Byron Stahly, Greg Benjamin, Jeff Larson and Dan Stahly have taken over management and ownership of the corporation. Dave Stahly continues to work with the company as a Senior Project Engineer. The services they provide include civil, structural, environmental and transportation engineering along with land surveying. They have offices located in Helena and Bozeman. The firm is currently staffed with 33 employees (23 in Helena and 10 in Bozeman).

Prior to their purchase of land on Centennial Drive in Helena and subsequent construction of a 8,000 square foot building, SE&A had been operating out of rented space in Helena, which had become cramped due to the company's growth. Not being able to find an existing building for sale in Helena that would meet their expansion needs, they entered into a design/build agreement with Diamond Construction in September 2004. The firm provided structural and site civil engineering services for their own building and worked cooperatively with the builder and architect to complete the project under budget and on time. SE&A moved into their newly constructed building in February 2005.

Financing for SE&A's project was made possible by First Interstate Bank (Helena) and Montana Community Finance Corporation's SBA 504 loan program. According to SE&A's Vice President, Jeff Larson, the firm "chose the SBA 504 loan program because of the reasonable down payment percentage (10%) and the fact that the interest rate on the loan would remain fixed for 20 years."

Jack Berry, Vice President at First Interstate Bank in Helena, says he is proud to work with Stahly Engineering and Montana Community Finance in providing an attractive financing package for his clients. Jack has helped many area businesses with SBA 504 financing projects over his past 16 years of banking in the Helena market. Jack states, "The SBA 504 program offers a way for borrowers to obtain the most attractive long term fixed rates available."



Stahly Engineering and Associates (SE&A) new office building located at 3530 Centennial Drive, in Helena.



Left to right: Jack Berry (First Interstate Bank), Dan Stahly, Greg Benjamin, Dave Stahly, Byron Stahly, Jeff Larson, Sherry Colvin (MCFC).

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(continued)

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GV Consulting & Administrative Services - Anaconda



SBA Montana District Office District Director, Michelle Johnston comments

Another fiscal year has come to a close. The end of the fiscal year shows us down four more employees (all retired). A very committed staff of six employees remains, however, and we continue to strive to provide quality service to all. Thank you for your patience as we adjust to a new way of doing business.

For fiscal year 2005, we did very well overall. With the support of our lenders, we closed the year with 490 7a loans approved totaling nearly \$71 million! Nine loans were approved through the 504 loan program which totaled nearly \$6.5 million. With the help of our resource partners—SCORE—Counselors to America's Small Business, Small Business Development Centers, and the Women's Business Centers, we exceeded our total counseling and training goals by 22%. All government contracting goals were exceeded. As we move into 2006, we will be targeting efforts towards the increased use of the 504 and SBA's Express Program. We will also continue to implement much of our training through the Ready Talk Program.

Nominations are now out for 2006 Small Business Week Awards. This is a great way to honor and recognize small businesses and advocates throughout the state. Nominations are being accepted in the following categories: Small Business Person of the Year, Small Business Exporter of the Year, Young Entrepreneur of the Year, Family Owned Small Business of the Year, Financial Services Advocate of the Year, Minority Small Business Advocate, Women in Business Advocate, Veteran Small Business Advocate, Small Business Journal-

ist, and Home Based Business Advocate. The deadline for submitting nominations is November 28. Please contact Rena Carlson for additional information and nomination forms 406.441.1081 ext. 128 or email lorena.carlson@sba.gov.

We look forward to working with Montana Community Finance Corporation in promoting the 504 loan program to our lending partners, helping small business owners realize their dreams of becoming a part of the backbone of the American economy.

SBA 504 Loan Overall Effective Interest Rates

	20 Year	10 Year
January 2005	6.15%	5.86%
February 2005	5.92%	N/A
March 2005	6.24%	6.19%
April 2005	6.40%	N/A
May 2005	6.13%	6.13%
June 2005	5.86%	N/A
July 2005	6.04%	6.13%
August 2005	6.40%	N/A
September 2005	6.05%	6.17%
October 2005	6.38%	N/A

Helena, MT 59624
P.O. Box 916
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