

How SBA 504 Loan Interest Rates Are Determined



Are you curious as to how your interest rate is determined, but are confused about the technical “mumbo-jumbo”? Before we explain how the SBA 504 loan interest rates are determined, it’s important to provide you a brief overview of the funding process.

After your loan request is approved by the SBA, Montana Community Finance (MCFC) requests a debenture be issued for the approved loan amount. Once a month, debentures across the nation are pooled together and sold to investors on the stock exchange. The proceeds from the sale of the debentures funds your 504 loan.

Now, in order to repay the underlying debenture for your SBA 504 loan project, MCFC signs a Development Company 504 Debenture (Debenture) with payments due semi-annually. The 20-year **Debenture Interest Rate** is based on the 10-year U.S. Treasury rate plus a spread and the 10-year De-

venture Interest Rate is based on the 5-year U.S. Treasury rate plus a spread. The spread is determined by current market factors. The Debenture Interest Rate is fixed for the life of the loan.

In order to repay MCFC, your business signs a 504 Note (Note) with payments due monthly. The **Note Interest Rate** is the result of reconciling the semi-annual Debenture payments and the monthly Note payments. Therefore, the Note Interest Rate will be slightly higher than Debenture Interest Rate. The Note Interest Rate is fixed for the life of the loan; thus an advantage of using our program, especially in a rising rate environment.

In addition to principal and interest, the monthly Note payments include ongoing servicing fees. Currently the ongoing servicing fees are about 1.042%. These servicing fees are recalculated at five-year intervals based on the outstanding principal balance; thus your monthly payment reduces every five years. When the ongoing servicing fees are calculated into the monthly payments of principal and interest, the result is an Effective Interest Rate.

When you phone our office, we will quote you the **Overall Effective Interest Rate**, which is the weighted average of the monthly Effective Interest Rates calculated over the term of

the loan. Note: The Overall Effective Interest Rate does not include the impact of upfront fees and therefore is not an APR type rate.

Following is an example of the rates for a 20 year SBA 504 loan funded in April:

10-year U.S. Treasury rate:	4.85%
Plus Spread:	0.79%
Debenture Interest Rate:	5.64%
Note Interest Rate:	5.72%
Overall Effective Interest Rate:	6.82%

Do you have questions regarding other aspects of the 504 loan program? Please contact our office.

Disclaimer - We have obtained this information from reliable sources, but do not guarantee its completeness.

SBA 504 Loan Overall Effective Interest Rates		
	20 Year	10 Year
January 2006	6.39%	6.59%
February 2006	6.53%	N/A
March 2006	6.75%	6.96%
April 2006	6.82%	N/A
May 2006	7.05%	7.19%

SBDC State Director, Ann Desch Comments



Perhaps the single most important obstacle to small business success, besides the lack of capital, is the lack of business management assistance. If you are considering starting your own business or are encountering problems with an existing business, the Small Business Development Center (SBDC) program can help navigate the critical steps to business success.

The Montana SBDC program is a statewide network of ten offices that provide one-on-one business management counseling and group training. As part of a nationwide network, SBDC counselors can provide Montana businesses with access to best practices information and education. The national network just celebrated its 25th Silver Anniversary this year.

The SBDCs provide valuable assistance in business planning and everyday business management issues. Through its network of referrals and resource partners, SBDC services are augmented to provide businesses with a full range of business assistance. In 2005, the Montana SBDC network counseled and trained 4,550 individuals.

Hosted by the Montana Department of Commerce for 18 years, the state SBDC Program receives \$500,000 of grant funds from the U.S. Small Business Administration (SBA) which is distributed to the 10 SBDC offices. These dollars are matched with funds from local economic development organizations and the State. This important Federal, state and local partnership allows counseling to be free of charge to Montana businesses. In addition, the SBDCs facilitate low-

(continued on pg. 4)

Marra, Sexe, Evenson & Bell, P.C.

What do you get when you take three separate, successful law practices with five lawyers, support staff, books, files, etc., merge them into one dynamic firm and wedge them all into one smaller rented office space? That was the situation Kirk Evenson of Marra, Sexe, Evenson & Bell, P.C. presented when he began his discussions with us:

"In the summer of 2005 we had recently merged with another law firm and needed a new place to roost. We were crammed into 2,500 square feet and needed more like 4,000. We found an ideal property, but it was for sale, not rent. While exploring financing options, we came upon the helpful folks at Montana Community Finance Corporation (MCFC). The SBA's 504 program was an ideal way for us to get into the property and exercise our plans for our expanding firm, without the need for a conventional 20-25% down payment."

Working with Amy Ward of Heritage Bank in Great Falls, Kirk assembled an application to purchase the unit and remodel it to suit their growing practice. MCFC's years of experience in packaging applications for submission to the SBA resulted in a 30 day loan approval, meeting the time line set by the sellers. The result: comfortable offices were provided for everyone along with a gracious reception area, conference rooms, law library; even a restful sky lit seating area surrounded by plants and a water fountain. Now there is also room for future expansion.

From Kirk - "Linda Kindrick and Sherry Colvin could not have been more helpful. The transaction was seamless, in large part due to their expert help. Heritage Bank and MCFC have been fantastic partners. We couldn't be happier."



Left to right: Sherry Colvin (MCFC) Sara Sexe, Kirk Evenson, Barbara Bell (kneeling), Antonia Marra, Tom Marra.

Lender Comments on Marra, Sexe, Evenson & Bell Project



I was impressed at how easy and smooth the 504 loan process was, with nothing difficult encountered. The staff at MCFC followed up with all parties, keeping everybody in the loop as we worked through the application. This helped everything move very smoothly.

Our bank chose the 504 program because the customer did not want to come up with a large down payment. Other financing options would have required more down than what could be offered through the 504 program. Had we used the 7(a) program, the guaranty fee would have been higher than what was available on the 504 and the borrower would have needed a larger down payment.

The 20 year term offered through this program was also very attractive to the borrowers. I also liked the fact the staff at MCFC did all the interaction with the SBA, and will continue to do so through the life of the loan.

The experience and knowledge of both Sherry and Linda was invaluable! I could e-mail or call them with a question, and they could answer it off the top of their heads, keeping the number of call backs to a minimum. I look forward to working with MCFC again in the near future on another project!

Amy Ward, Vice President, Heritage Bank, Great Falls

2006-2007 MCFC Members

(continued)

Maureen Garrity

Independent Consultant - Helena

John Gilbert

Silver Wolf Enterprises - Great Falls

Randall Green

Green & Green Realty - Helena

Randy Hanson

Montana Department of Commerce - Havre

Haven Holsapple

Holsapple Consulting - Hamilton

Kay Jennings

Frontier Assisted Living - Missoula

Leslie Jensen

US Bank - Missoula

Tod Kasten

Montana Department of Commerce - Circle

Herb Kulow

Montana Board of Investments - Helena

Dave Laber

Helena Job Service - Helena

Jeff Larson

Stahly Engineering - Helena

Tracy McIntyre

Eureka Rural Development Partners, Inc. - Eureka

Gary Morehouse

Montana Department of Commerce - Helena

Mike O Dore

Diversified Transfer & Storage Inc. - Billings

Maureen Oelkers

Big Sky Brokers - Helena

Larry Olson

LA Olson & Associates - Billings

Byron Ophus

MSU-Northern-Havre

Darwin Rabenberg

First Interstate Bank - Livingston

Delrene Rasmussen

Montana Closetworks - Clancy

Craig Rawlings

Safe Shop Tools - Missoula

Dennis Ross

Stevensville Feed & Farm - Stevensville

Jarrold Shew

First Interstate Bank - Kalispell

Robin Steiler

Four Corners Hardware - Bozeman

Linda Twitchell

Great Northern Development - Wolf Point

Peter Van Nice

Rocky Mountain Bank - Billings

Gene Vuckovich

GV Consulting - Anaconda

Robert Weins

Beartooth Bank - Billings

Kent Wood

First Interstate Bank - Bozeman

Ann Desch Comments *(continued from pg. 1)*

cost training through local business feasibility classes and the NxLevel business planning course.

Helping clients assess their business capital needs and find financing through various lending programs is one of the SBDC's important counseling activities. The SBDC business counselor can assist a business owner who is seeking financing with financial analysis, cash flow projections, and assistance with loan application preparation.

We want to thank the MCFC Board for the donation of \$5,000 to the SBDC network. These individual gifts to the SBDC host organizations will go to providing direct counseling services to Montana businesses. We look forward to continuing to work with MCFC and the SBA 504 program to help Montana businesses start and expand their businesses.

To find the SBDC nearest to you, please visit www.sfdc.mt.gov/offices.asp

MCFC 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

MCFC Donations

Montana Community Finance Corporation (MCFC) is charged with supporting local economic development activities in Montana through the 504 loan program as well as financial contributions. So far this year, MCFC has financially contributed:

- \$500 to each Small Business Development Center (\$5,000)
- \$500 to each Women's Business Center (\$1,000)
- \$2,500 to Montana Manufacturing Center as a co-sponsor for the 2006 MT Compete Smart Montana Manufacturing Conference

Total contributions thus far in 2006 - \$9,000 – that's *really* helping Montana's small businesses take the next step!



In February, each SBDC director was presented a \$500 check from MCFC. Pictured are: Michelle Johnston (SBA District Director); Ann Desch (SBDC State Director); Linda Kindrick (MCFC Executive Director) and Robert Much (SBA Business Development Specialist).