



# Banking on Sustainable Urbanism

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Baton Rouge Market President  
JPMorgan Chase Commercial Bank

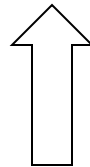
4:00 PM August 18, 2011

Shaw Center for the Arts



# Organization

**JPMorgan Chase & Co.**



**JPMorgan Chase Bank, N.A.**

**JPMorgan Chase Foundation**

(Separate from the Bank)



# JPMorgan Chase Foundation

## ■ Areas of Focus

### ■ Affordable housing (Sustainable neighborhoods)

#### Baton Rouge Focus

- Old South Baton Rouge
- Mid-City

### ■ K-12 Education

## ■ Tools: Grants

These are not yet intended to be multi-year commitments but for specific projects

## ■ Local Contact: Liza Cowan (504)623-1160



# JP Morgan Chase Bank, N.A.

## ■ Tools:

### ■ Direct Loans (Commercial)

#### Criteria:

- Cash Flow (Business Plan)
- Collateral
- Guarantees

### ■ Mortgage Loans

Local Contact: Jackie Reed (225)332-4029



# Types of SBA Loan Programs

- SBA Guarantee Loan Programs
  - Express
  - Patriot Express
  - 7(a)
- SBA 504 Loan Program
- Local Chase SBA Contact:

Laurie Saurage (225)332-7023



# Benefits to the Bank

- Limits our risk
- Lowers our lost dollars in the event of default
- Helps banks say “Yes” more often



# Benefits to the Client

- Credit Request Weakness
  - Highly leveraged
  - Short on collateral
  - Time in business
  - Personal shortfall
  - Anything the bank feels is a weakness
- Longer Terms
  - Typically longer terms than conventional
  - Greater cash flow
- Smaller Injection
  - Typically 10% less than conventional



# SBA Guarantee Loan Programs

- **SBA Express**
  - Up to \$350,000
  - Term and Line of Credit
  - 50% SBA guarantee
  
- **SBA Patriot Express**
  - Program for Veterans
  - Up to \$500,000
  - Term and Line of Credit
  - 75% SBA guarantee
  
- **SBA 7(a)**
  - Up to \$5MM
  - Term only
  - 75% SBA guarantee

Similar interest rates  
as conventional lending



# SBA Guarantee Loan Program Costs

Loan Amount	Percentage of Guaranteed Portion
\$150,000 or less	2%
\$150,001 - \$700,000	3%
\$700,001 - \$1,333,000	3.5%
\$1,333,001 or more	\$35,000 + 3.75%



# SBA Guarantee Loan Program Terms

Purpose	Term
<ul style="list-style-type: none"><li>▪ Working capital</li><li>▪ Fixtures/Furniture</li></ul>	Up to 7 years
<ul style="list-style-type: none"><li>▪ Equipment</li><li>▪ Acquisition of Business</li><li>▪ Leasehold Improvements</li></ul>	Up to 10 years
<ul style="list-style-type: none"><li>▪ Debt refinance</li></ul>	Depends on use
<ul style="list-style-type: none"><li>▪ Real estate (no investment real estate)</li></ul>	Up to 25 years

**No balloon, straight term out**



# SBA Guarantee Loan Program Size Standards

## For-Profit Business Only

- NAICS/SIC Size Standards
  - Retail & Service - 3 year average max revenue standards
  - Manufacturing - Less than 500 employees
  - Wholesaling - Less than 100 employees
  - Temporary alternate size standard:
    - Less than \$15 MM **tangible** net worth
    - Less than \$5 MM average net income over last 2 years
- Personal Resource Test (Liquidity Test)
  - Allows for personal liquidity of 1-2x project amount, depending on project size.



# SBA 504 Program



# What is the SBA 504 Loan Program?

- Designed to spur economic growth
- A loan program for:
  - Owner Occupied Real Estate
  - Heavy Equipment



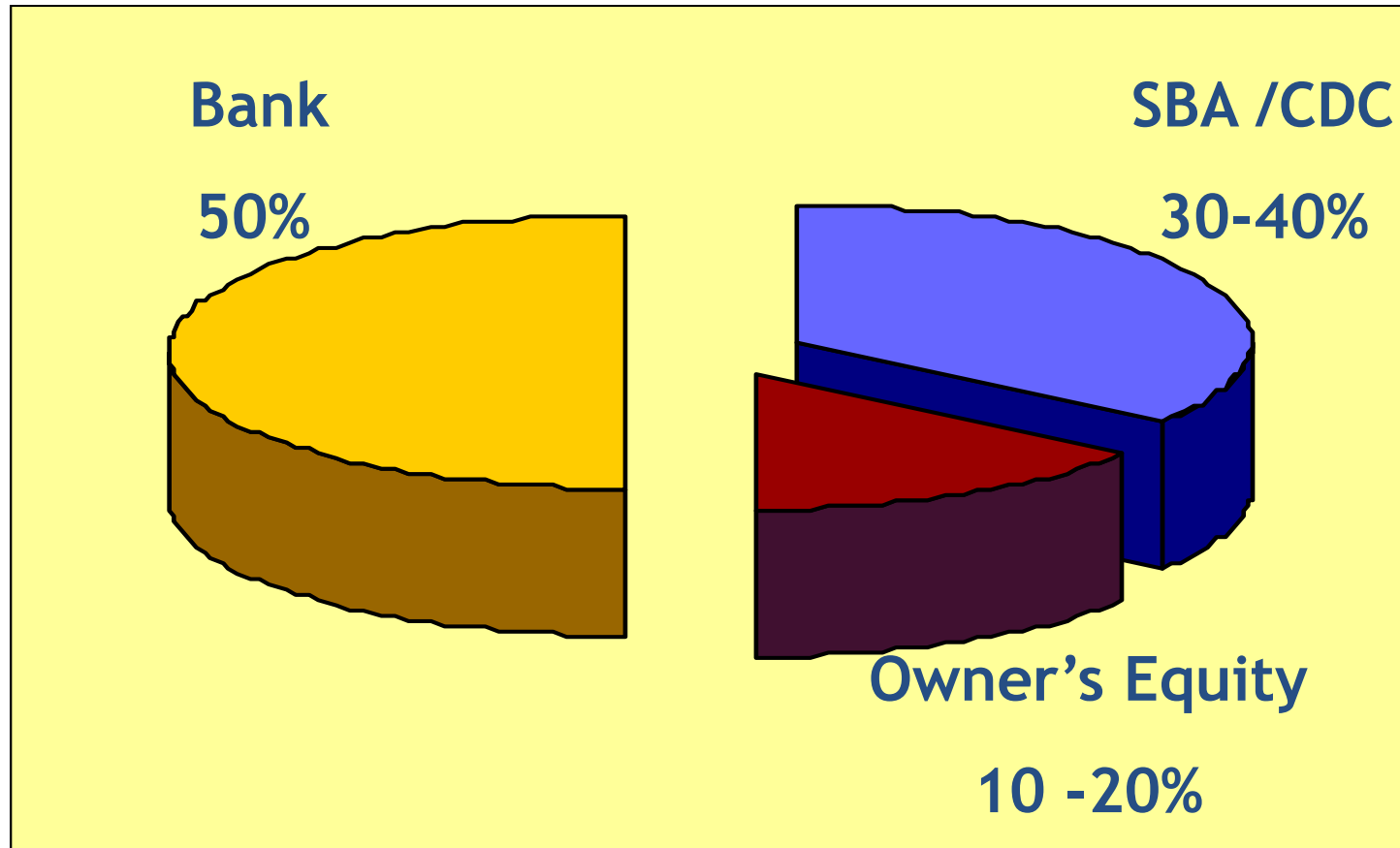
# Eligible Uses of 504 Project Funds

## Fixed-Asset Financing

- Purchase land and existing buildings
- Renovate or expand existing facility
- Construct a new building
- Acquire or install machinery
- Soft costs involved with the projects



# Typical Structure



## Additional Owner's Equity

- +5% if special purpose real estate
- +5% if start-up business



# SBA Portion of Loan

- Financing Term will be
  - 20 year term and amortization for real estate
  - 10 year term and amortization for equipment
- Fixed interest rate.
- Example Effective Rates\* (as of April 2011):
  - 5.66% real estate (20 year debenture)
  - 4.79% equipment (10 year debenture)
- SBA related fees:
  - Approximately 2.5% to 3.25% of SBA loan portion

\* These rates represent the effective rates as published by one CDC. Actual effective rates will vary by CDC.



# Bank's Portion of Loan

- **Minimum** term requirements:
  - 10 year term on a 20-year SBA loan
  - 7 year term on a 10-year SBA loan
- No restriction on amortization
- Interest rate may be **variable or fixed**
- Bank funds SBA portion of loan until bond sale is complete



# Benefits to Borrower

- Up to 90% financing
- Long-term, competitive fixed rate funds
  - 10 or 20 year term
- Blended rate is more favorable
- 504 loan fees and closing costs included in loan amount



# Project Size Requirements

**Minimum SBA Portion of 504  
Loan: \$200,000**

**Maximum Amount of 504 Loan:  
\$5 MM**

**\$5.5 MM max.  
amount if SBA  
Renewable  
Energy Goal is  
met**



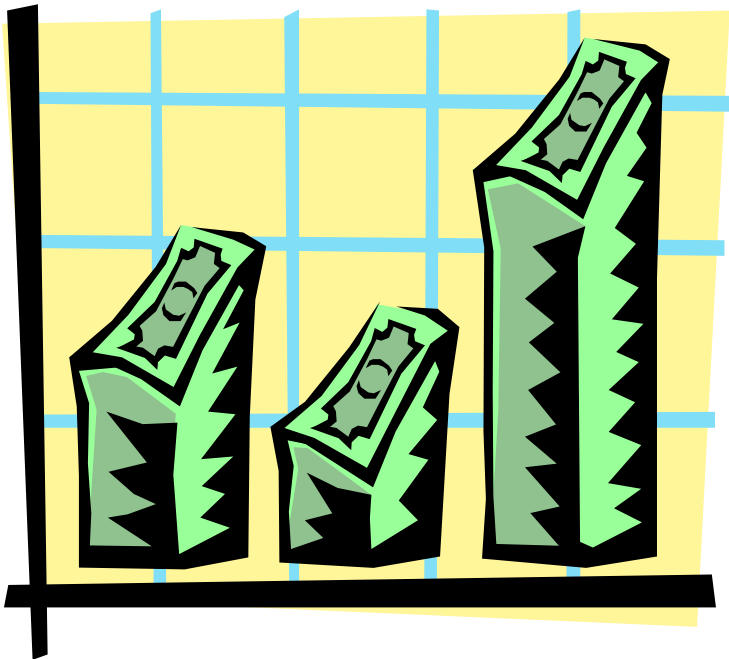
**\$5.5 MM max.  
amount for most  
manufacturers  
(NAICS 31, 32, 33)**

**No maximum limit to  
project size.**



# Business Size Standards

Combined with all affiliates, the business must have:

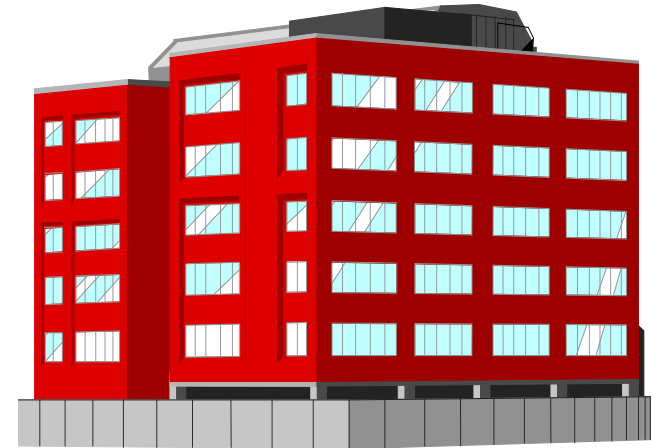


- Less than \$15 MM tangible net worth
- Less than \$5 MM average net income over last 2 years
- Personal Resource test is also applicable



# Occupancy Requirements

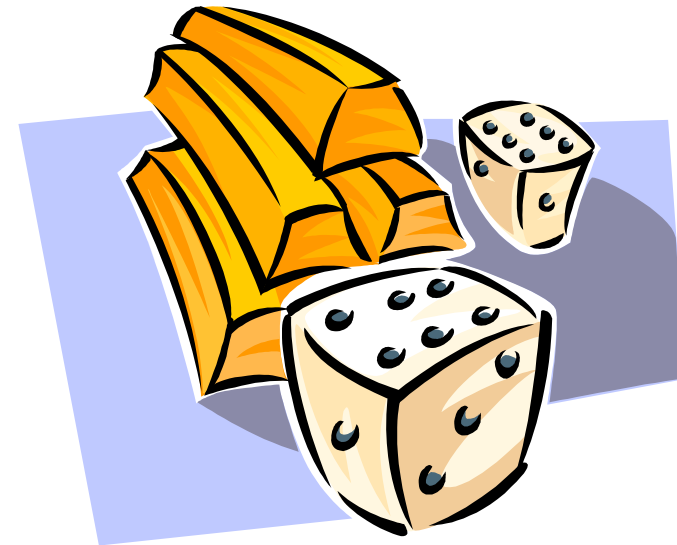
- Existing Building
  - Business must occupy at least 51%
  - May lease out the other 49% permanently
  
- Newly Constructed Building
  - Business must occupy at least 60%
  - Must occupy 80% within 10 years





# Business Not Eligible for 504 Funding

- Non Profits
- Lending institutions
- Life Insurance companies
- Private clubs
- Speculative investment
- Non-owner occupied building
- Gambling concerns
- Businesses engaged in promoting religion
- Cooperatives (exception for some producer co-ops)
- Political or lobbying services
- Businesses located in foreign country or owned by an alien
- Businesses selling through pyramid plans
- Businesses with prior loss to the government





# Prepayment Penalty

**In effect for the first half  
of the 504 loan term**

- Prepayment penalty applies
- Declines each year
  - Principal \* Interest Rate \* Declining Factor
  - Factor is 1.0 in year one, 0.9 in year two, 0.8 in year three, etc.
- Depending on interest rate, it may be beneficial to prepay your bank loan first