

FEATURE 504:

Glacial Lakes Ag Supply



Mike Gruenwald recently and proudly changed his title from tenant to owner of commercial real estate. Aiding in the undertaking, were partner lenders—Reliabank in Watertown and First District Development Company via the SBA 504 loan program. Mike is no longer helping a landlord increase their equity position, but rather he's building his own. The decision to embark on this project wasn't sparked by desire, but rather necessity, as Mike's business had reached maximum capacity at its rented location. Furthermore, Mike's seed provider—Channel Seed, gave him an ultimatum.

Glacial Lakes Ag Supply—the business Mike owns—is now located in rural Clark County. Mike's project involved the purchase of land, construction of a new building, and the purchase and installation of new equipment. The project land was purchased in advance of starting construction, but was included in the project as refinanced debt. The land is located 1/2 mile south of SD Highway 212, right on SD Highway 25. Clark is where Mike grew up, so he is very familiar with the area and the people in it. This location is optimal for Mike's business to thrive, as it is located in the heart of Mike's customer base—making it ideal for distribution and prospecting. Mike delivers nearly all the seeds he sells directly to the customer, while a small percentage pick the seeds up themselves. Logistically, the new location makes sense, saving Mike drive time and cost of fuel.

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Glacial Lakes Ag Supply Continued



In regards to Mike's reason for doing the project, his former rented location in Watertown was operating at maximum capacity. He was at the point he could not take on any new customers. He simply didn't have room for it. The other main reason the move was crucial was because Channel Seed determined Codington County was over saturated with seed dealers and there was no Channel dealer in Clark County. Channel recognized the importance of having a seed dealer in Clark County and they pinpointed Mike as their top choice.

In addition to the refinance of land and the construction of the new 70 x 150 building, Reliabank and FDDC/SBA also financed Mike's

purchase of the four bins and bulk system. This set up is a far cry from the facility rented in Watertown, which even though it was the same size as his new building, it did not have any bins for seed storage nor did it have a bulk system. Also, the sidewalls at the rented located were five feet shorter than his building now—which limited room for the seeds to be stacked. In addition to the efficiencies and cost savings the new building and location has produced, it has also allowed Mike to be able to take on new customers. Having the four bins for storage allows for more storage space overall, which in turn, opens up possibilities for increased sales.

As a seed dealer for Channel Seed, Mike realizes he sells an elite product, which does come with a hefty price tag. Mike believes by providing a quality product his customers will benefit from an increased return on their investment. His relationships with his customers are built on mutual trust and the continual investment of time Mike spends understanding his customers needs and concerns. Mike believes his new, visible location in Clark County will only strengthen the relationships he has with his existing customers and will simultaneously attract new customers.

FDDC wishes Glacial Lakes Ag Supply many more years of continued success at its new location!

Revolving Loan Funds Available

FDDC has been a partner of small businesses for more than 35 years and its experienced staff works to customize a loan product for each of its customers. In addition to the SBA 504 program, First District Development Company offers financial assistance through our Revolving Loan Funds. FDDC's earliest Revolving Loan Funds (RLFs) were established in 1986 with funds from the Economic Development Administration, USDA Rural Development, and state and local matching funds. FDDC currently retains or manages nine RLFs that can be used in certain geographic areas in Eastern South Dakota. This includes separate funds FDDC manages for Deuel, Hamlin, and Kingsbury Counties and the Lake Preston Development Corporation.

All of our Revolving Loan Funds are used in conjunction with local lender financing to assist businesses that create or retain employment opportunities as a result of their projects. These funds are utilized for new business construction projects, existing business purchases, or expansion projects. **In total, we currently have approximately \$2.5 million available to lend out.** Generally used for smaller projects, the maximum available to lend to one borrower is \$250,000. For more information on these programs contact FDDC.



SBA 504 / SBA 7A / CONVENTIONAL LOAN COMPARATIVE ANALYSIS

The table below outlines a comparison between financing options available to small business clients. While SBA financing traditionally involves fees, because of the long term, low fixed rate of the SBA 504 loan, small businesses can save over a period of time. Additionally, the initial investment for the small business owner is reduced because of the low equity requirement. Bottom line...the small business owner saves valuable cash by utilizing the SBA 504 loan, and the larger the project being financed, the more they will save.

	SBA 504			7A LOAN		CONVENTIONAL	
Owner Injection	¹ \$100,000	10%		\$200,000	20%	\$250,000	25%
Bank Loan	\$500,000	50%		\$800,000	80%	\$750,000	75%
CDC 504 Debenture	\$400,000	40%		\$0		\$0	
Total Project	\$1,000,000	100%		\$1,000,000	100%	\$1,000,000	100%
	PRIVATE LENDER	504 LOAN	TOTAL	PRIVATE LENDER	PRIVATE LENDER		
Loan Amount	\$500,000	\$400,000	\$900,000	\$800,000	\$750,000		
Interest Rate	5.5%	3.64%		5.5%	5.5%		
Terms	Variable	Fixed		Variable	Variable		
Points	1%	0%		1%	1%		
Years Amortized	20	20		20	20		
Up-front Fees							
Bank Points (Soft Cost)	² \$5,000	\$0		\$8,000	\$7,500		
SBA Guaranty Fee	\$0	\$2,000		\$21,000 ³	\$0		
CDC Process Fee (1.5%)	\$0	\$6,000		\$0	\$0		
CDC Attorney Fees	\$0	\$1,500		\$0	\$0		
Funding Fee (0.25%)	\$0	\$1,000		\$0	\$0		
Underwriters Fee	\$0	\$1,652		\$0	\$0		
TOTAL FEES	\$5,000	\$12,152	\$17,152	\$29,000⁴	\$7,500		
TOTAL LOAN AMOUNT	\$500,000	\$413,000	\$913,000	\$821,000	\$750,000		
Monthly Payment	\$3,439	\$2,426	\$5,865	\$5,503	\$5,159		
Effective Interest Rate	5.5%	3.64%	4.66%	5.5%	5.5%		
Annual Principal & Interest	\$41,268	\$29,112	\$70,380	\$66,036	\$61,908		
Cash Down			\$100,000	\$200,000	\$250,000		
Fees Not Financed			\$5,000	\$8,000	\$7,500		
TOTAL CASH OUTLAY 1ST YEAR			\$175,380	\$274,036	\$319,408		

- 1 Owner's Injection varies based on borrower's experience and type of business, however it is typically higher when there is no SBA involvement.
- 2 Points on the bank's term loan can be charged, but cannot be financed in the 504 project.
- 3 This fee is based on a loan amount of \$800,000 with a 75% SBA Guaranty or \$600,000. The fee percentage for this size of guaranty is 3.5% or \$21,000.
- 4 This number does not take into consideration the on-going Lender Servicing Fee that is paid annually by the bank, which is 0.55 percent of the guaranty balances.

504 Funding Summary

January 2019 — January 2020

10-Year Debentures		
Jan	2019	5.064
Mar	2019	4.628
May	2019	4.365
Jul	2019	3.937
Sep	2019	3.563
Nov	2019	3.933
Jan	2020	3.804

25-Year Debentures		
Aug	2019	3.630
Sep	2019	3.458
Oct	2019	3.540
Nov	2019	3.800
Dec	2019	3.643
Jan	2020	3.714

For January, 2020, a total of \$113,379,000 twenty-year debentures (or 156 loans), a total of \$207,215,000 twenty-five year debentures (or 275 loans), and a total of \$10,182,000 ten-year debentures (or 23 loans) were funded through the sale of certificates guaranteed by SBA.

Rates shown are full term effective rates, which include all monthly service fees. 10-Year Debentures are sold every other month and generally the proceeds are used for equipment purchases. 20-Year and 25-Year Debentures are sold monthly and the proceeds are used for real estate acquisition and/or construction.

20-Year Debentures		
Jan	2019	4.758
Feb	2019	4.646
Mar	2019	4.586
Apr	2019	4.367
May	2019	4.265
Jun	2019	3.983
Jul	2019	3.914
Aug	2019	3.531
Sep	2019	3.359
Oct	2019	3.462
Nov	2019	3.742
Dec	2019	3.582
Jan	2020	3.644

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