

FEATURE 504:

Subway Miller, SD



Proven management and ownership abilities were a key selling point for First District Development Company and Plains Commerce Bank in Aberdeen, South Dakota, when considering Carisa Giblin's loan application. Carisa proposed to purchase an existing building in Miller, SD, and renovate it to operate as a Subway. Through the merger of an SBA 504 loan via FDDC and a conventional bank loan through Plains Commerce Bank, Carisa Giblin was able to turn her dream of expanding her Subway business to Miller a reality.

In 2014, Carisa Giblin took over management and ownership of the Subway in Redfield, SD. Prior to that, Carisa was involved in management at the Subway in Mitchell, SD. Simultaneously to having the Subway in Redfield, Carisa also worked full-time as the Clinic Manager at Redfield Community Memorial Hospital. Since starting the Subway in Miller, Carisa resigned her position at the hospital and now is focusing her full efforts on her two Subway stores. Carisa, who resides on an acreage between Redfield and Miller, saw Miller as the perfect location to open another Subway. Miller, which is centrally located for many travelers in South Dakota, had only one fast-food establishment. As soon as the small community of 1,500 caught wind of Subway coming to town—the town was buzzing with the exciting news. Carisa received a lot of positive feedback to her Miller Subway before the official purchase was actually made.

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FDDC is an Equal Opportunity Lender,
Provider, and Employer.

Subway

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Indeed, the buzz was spot-on, because when Carisa opened the doors to her Miller Subway in March 2016—the restaurant was received very well by the community. Carisa feels fortunate for the warm welcome to the town and also for the exceptional team of employees and the sensational manager she's found in the community.

At the Subway in Miller customers are greeted by name. More times than not, the team there will know what a regular customer is going to order and particularly how they would like it prepared. Currently, Carisa is having a drive-thru system installed, which will only increase the convenience for the Miller Subway customers.

Carisa takes pride in her Subways. She makes sure her restaurants are kept clean and she pays close attention to make sure the employees and management act professionally and appropriately when she's present at the store and when she's not. With Subway's constantly changing menu, the clean establishment, and top-notch employees, it's no wonder Carisa's Redfield Subway constantly reports increasing sales and has received recognition from the Franchise World Headquarters. When Carisa took over the Redfield Subway, she made major changes in employees on staff and changes to the way the entire restaurant was kept and operated.

Carisa enjoys being part of the Subway franchise, as she enjoys the food the franchise offers, and the franchise has good people who are easy to get along with. Her favorite part of owning and operating her own Subway is having the opportunity to meet the people, both employees and customers.



Carisa Giblin (far right) and part of her team at Subway in Miller, SD

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SBA 504 Fee Reduction

For all SBA 504 loans approved after October 1, 2016, the Ongoing Borrower Guarantee Fee has decreased. This fee is added to the debenture rate each month and is included in the full term effective rate that is quoted for 504 loan rates. The current fee of 0.914% has been reduced to 0.697%, representing a drop of 2.17 basis points.

As an example, the October, 2016, full term effective rate for the twenty year debenture was 4.261%. That same rate with the fee reduction would be 4.044%. These fees are calculated on the average remaining balance of the 504 loan over five year periods. The Ongoing Borrower Guarantee Fee is adjusted annually in October to offset the costs of maintaining the 504 program, since it is not subsidized by the U.S. government.

Have an SBA 504 Refinance Project?

Guidelines Vary on 504 Refinance With or Without Expansion

SBA 504 Refinance with Expansion

- ➔ Existing debt of up to 50% of the expansion costs (construction, professional fees, interim interest) can be included in the 504 project
- ➔ Business must be in operation at least 1 year
- ➔ Existing debt has to be for fixed assets or only use portion of debt that was for fixed assets
- ➔ Business must be current on payments for 1 year
- ➔ Existing debt can be less than 2 years old
- ➔ Can refinance SBA 504/SBA 7a/Third Party Lender Loans made with an SBA 504 project
- ➔ Refinance must provide a substantial benefit to the business – a savings of at least 10% or refinancing a balloon payment is automatically considered a substantial benefit
- ➔ Refinance must provide better terms or interest rate (Examples: longer maturity, lower interest rate, improved collateral conditions, less restrictive loan covenants)
- ➔ Equity in land & building can be used to meet 504 equity requirements
- ➔ Excess debt that exceeds 50% of the cost of expansion can be consolidated into the Third Party Lender Loan as long as the debt was secured by the project property

<u>504 Refinance with Expansion</u>		
SBA 504 project sources and uses example – debt refinancing with expansion:		
Expansion Costs		\$500,000
Qualified Debt Refinancing		\$250,000
Total Project Costs		\$750,000
Lender	50%	\$375,000
FDDC / SBA 504	40%	\$300,000
Equity	10%	\$75,000
Total Financing Sources		\$750,000

SBA 504 Debt Refinancing Program (Refinance Only)

- ➔ Only existing debt (no expansion costs) can be included in the 504 project
- ➔ Qualified debt must be at least 2 years old and used to acquire an eligible fixed asset
- ➔ Other secured debt must be at least 2 years old and secured by same fixed asset
- ➔ Business must be current on payments for 1 year
- ➔ **Cannot** refinance SBA 504/SBA 7a/USDA or Private Lender Loans made with SBA 504
- ➔ Refinance only projects maximum loan-to-value is 90%
- ➔ Cash-out refinance is permitted to cover most eligible business operating expenses
- ➔ Business operating expenses include salaries, rent, utilities, inventory, or other business obligations incurred but not paid or will become due in next 18 months
- ➔ When business operating expenses are included, the maximum loan-to-value is 75% and operating expenses cannot exceed 25% of value
- ➔ Must meet all other eligibility requirements of SBA 504 program

<u>504 Refinance Only</u>		
SBA 504 project sources and uses example – debt refinancing with business operating expenses:		
Appraised Value of Property		\$1,000,000
Qualified Debt		\$500,000
Other Secured Debt		\$200,000
Business Operating Expenses		\$50,000
Total Project Costs		\$750,000
Lender	37.5%	\$375,000
FDDC / SBA 504	37.5%	\$375,000
Equity	25.0%	\$250,000
Total Financing Sources		\$1,000,000

For more details, contact First District to discuss your refinance project and its SBA 504 eligibility...605-882-5115.

504 Funding Summary

October 2015 — October 2016

10-Year Debentures

Sep	2015	4.236
Nov	2015	4.176
Jan	2016	4.288
Mar	2016	4.333
May	2016	4.194
Jul	2016	4.115
Sep	2016	4.290

For October 2016, a total of \$298,584,000 twenty-year debentures (or 358 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 Debentures are sold monthly and the proceeds are used for real estate acquisition and/or construction.

20-Year Debentures

Oct	2015	4.801
Nov	2015	4.778
Dec	2015	4.902
Jan	2016	4.831
Feb	2016	4.324
Mar	2016	4.553
Apr	2016	4.311
May	2016	4.320
Jun	2016	4.232
Jul	2016	4.091
Aug	2016	4.093
Sep	2016	4.082
Oct	2016	4.261

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