DISCLOSURE STATEMENT
HCDC
(Hamilton County Development Co., Inc.; dba: Horizon Certified Development Company)
U.S. Small Business Administration
504 Loan Program

The SBA 504 Loan Program offers eligible Small Business Concerns (SBC's) the means to finance expansion projects through a long-term, fixed-asset financing program. It requires the participation of a lending institution and provides up to 90% of a project's total financing requirements.

The SBA relies on the services of a Certified Development Company (CDC) such as HCDC (Hamilton County Development Co., Inc.; dba: Horizon Certified Development Company) to administer and service the 504 Loan Program. HCDC wishes to advise you of certain charges and procedures relating to the Program's application, approval and funding processes.

This Disclosure Statement highlights only certain routinely encountered issues and is intended for informational purposes only. It is not meant to be a complete summary of all SBA 504 loan policies and requirements. Each loan applicant is solely responsible for determining, understanding and following all 504 Loan Program policies and requirements.

STRUCTURE OF PROJECT LOAN

The structure of the SBA 504 loan would include the SBC choosing a consenting financial institution who would finance 50% of your project with mutually agreed upon terms. This lending institution would have a first lien position on the SBC's project assets. Because the 504 Loan Program was developed to provide long-term fixed asset financing, HCDC would provide a second, or subordinated, loan for up to a maximum of 40% of the total project costs at a fixed rate and term of 10 or 20 years on real estate or machinery and equipment. The small business must provide a minimum of 10% of the project costs as an equity injection. **Note**: If the small business concern has been in business for two years or less, **or**, if the project being financed involves a limited or single-purpose building or structure, the small business must provide at least 15% of the project costs as equity. If the small business concern has been in business for two years, **and**, the project being financed involves a limited or single-purpose building or structure, the small business concern must provide at least 20% of the project costs as equity.

To raise the Certified Development Company funds representing the subordinated SBA 504 loan, HCDC issues a debenture that is 100% guaranteed by the U.S. Small Business Administration. The guaranteed debenture is pooled with other similar debentures from Certified Development Companies around the nation through an underwriting process and then sold into the secondary market on a monthly basis. It is the secondary market selling price that determines the interest rate to the small business on the Certified Development loan. It is noted that the interest rate for 10 and 20 year 504 debentures are based on 5 and 10 year Treasury rates, respectively. The 20 year 504 debenture is sold on a monthly basis, and the 10 year 504 debenture is sold on a bi-monthly basis. Although Treasury rates are used as a basis, investors typically expect a premium over the "base" treasury rate, reflecting current market conditions.

THE LOAN PROCESS

Once the SBA 504 Loan Program Application has been completed by the borrower and underwritten by HCDC, the loan is reviewed by HCDC's Board of Trustees. It is within the authority of the Board to approve, deny, request additional information or approve with additional conditions, the submitted loan application. Once approved, a **complete** application is submitted to the SBA for its review and action. Under normal circumstances, the SBA review will take 7-10 working days. If the SBA approves the application, an Authorization is issued detailing all the terms and conditions of its approval for the Small Business, HCDC, and the Bank. Typically there will be two closings scheduled, one for the bank loan and one for HCDC's loan. Since lien positions must be established prior to debenture funding, the Bank loan typically would come first.

The SBA 504 Loan Program can only be used to finance completed projects. In cases where construction must be completed or major equipment installed, interim financing must be provided either by a bank or other third party source. Once the eligible project has been completed, HCDC will close on the debenture and schedule the sale through the underwriting process.

Once the SBA loan documents have been executed, there is approximately a 60-90 day period until the SBA loan is funded. On the designated funding date, the SBA interest rate is established and the SBA funds are wire transferred directly to the lending institution. Typically, all of these funds are utilized to pay off the interim and/or construction financing.

The following are some matters relating to procedures and fees of which you should be aware:

ELIGIBLE PROJECT COSTS

The following project costs are eligible for 504 financing:

- Land and building acquisition
- Building improvements and construction
- Soft costs including appraisal fee and environmental audit *
- Construction financing interest and loan fees *
  (first mortgage lender's loan fees cannot be included)
- Equipment acquisition

  * if appraisal supports such costs

LEASING EXCESS SPACE POLICY

- For an existing building, the SBC must initially occupy at least fifty-one percent (51%) of the total building space, and proceeds may not be utilized to renovate any portion of building which is not occupied by the SBC.

- For new construction, the SBC may sublease up to forty (40%) of the square footage for a short term, if reasonable growth projection shows that additional space will be needed within three years and that the company will use all of the space within ten years. In some cases, and subject to SBA approval, the SBC may sublease up to 20% of the square footage permanently.

JOB CREATION/COMMUNITY/ECONOMIC OBJECTIVES

One "job opportunity" must be projected to be created (within two years after funding), for every $65,000 in SBA funds loaned ($75,000 in Special Geographic Areas such as State-designated enterprise zones, empowerment zones, enterprise communities and labor surplus areas). The maximum 504 loan is $5 million unless the project can meet one of the community development goals or one of the public policy goals. If one of these goals is met, the business may borrow up to $5.5 million in SBA 504 funds and does not have to meet the job creation requirement. Manufacturing firms may qualify for up to $5.5 million in 504 funds if it meets a community development or public policy goal and creates or maintains one job per $100,000 in 2 years.

Community Development Goals include: improving, diversifying or stabilizing the economy of the locality; stimulating other business development; bringing new income into the community; assisting manufacturing firms (SIC 20-49); and assisting businesses in Labor Surplus Areas.

Public Policy Goals include: business district revitalization; expansion of exports; expansion of minority business development; rural development; enhanced economic competition; restructuring because of Federally Mandated Policies; changes necessitated by Federal budget cutbacks; 10% reduction in energy consumption, use of sustainable design, upgrade of renewable energy/fuel production, women-owned and veteran-owned businesses.

REAL ESTATE OWNERSHIP

Eligible Passive Concerns (EPCs), individuals, and certain trusts may hold title to the real estate and lease the facility (the lease term must match or exceed the 504 term) to the SBC. Subject to SBA approval, a 504 loan may finance a project housing multiple, unrelated small businesses.

SIZE ELIGIBILITY REQUIREMENTS

A SBC, together with its affiliates, cannot have a tangible net worth in excess of $15 million, and cannot have an average net income after tax in excess of $5.0 million. An affiliation occurs when one concern controls or has the power to control the other. SBA considers factors such as ownership, management, previous relationships and contractual relationships in determining whether an affiliation exists.

PERSONAL/CORPORATE GUARANTEES

Personal guarantees are required of all principals owning 20% or more of the business, and in cases where an EPC holds title to the real estate, a corporate guarantee is also required of the SBC. Also, a corporate guarantee may be required of any affiliate companies.

ASSUMPTIONS

The SBA 504 loan is assumable at HCDC's and SBA's sole discretion. HCDC assesses a one percent (1%) fee on the outstanding indebtedness for all assumption actions, plus any other applicable expenses.

PRIOR BANKRUPTCIES

It is our policy to reserve the right to withhold approval of applications where the applicant, and/or its principals have taken prior protection from creditors under bankruptcy law. Full disclosure of prior bankruptcies is required.

FEES

The following fees will be charged to the applicant relating to the SBA 504 loan application:

Out of pocket:

An **application fee** of $250.00 is required at the time HCDC accepts your application for processing. This is a non-refundable fee.

An **application deposit fee** is typically collected from the applicant after approval from HCDC's Project Review Committee, however, if the applicant so chooses, this fee may be financed in the 504 loan debenture. This deposit is used to cover HCDC's cost for legal counsel, title insurance, recording fees, credit reports, etc. The amount of the deposit is based on the net amount of the debenture. Any amount that is not used after funding of the loan is complete will be refunded to the applicant, but if the deposit is not sufficient to cover all costs, the applicant will be billed for the balance due. The deposit will not be refunded if the applicant decides to withdraw the application after the loan has received SBA approval.

Included in Loan Proceeds:

A **Loan Processing Fee** of approximately two and seven-tenths percent (2 7/10%) of the SBA loan is due upon funding of the SBA loan and is added to the loan amount. This fee covers processing (1.5%); reserve fee (.5%) underwriting (.4%); and funding (.25%) to total the 2.65%. For example, assume that the project cost is $250,000.00. The bank is providing a first mortgage of $125,000.00 (50%), HCDC is providing a second loan of $100,000.00 (40%), and the small business is injecting equity of $25,000.00 (10%). The **total** HCDC debenture amount, including one time up-front fees would be $103,000.00. Please see below:

Net Debenture Proceeds		**$100,000.00**
Deposits and Fees		
Processing Fee	(1.5% of Net Debenture)	1,500.00
Reserve Fee	(.5% of Net Debenture)	500.00
Funding Fee	(.25% of Net Debenture)	250.00
Subtotal		$ 102,250.00
Underwriting Fee	(.4% of Subtotal rounded up to the next thousand)	412.00
Total		$ 102,662.00
Gross Debenture Rounded up to the Next Thousand		**$103,000.00**
Difference Returned to Small Business		$338.00

Fees related to this below market interest rate, long-term loan program, are approximately 2.65%. This 2.65% is funded in the debenture and amortized over the term of the loan.

Servicing Fees (paid monthly):
In addition to the principal and interest payment, the Borrower's monthly obligation includes the following servicing fees:

- Guaranty fee paid to the SBA: .9375 of 1% per annum (for fiscal year 2011 SBA approvals)
- Servicing fee paid to HCDC: .625 of 1% per annum
- Servicing fee paid to Central Servicing Agency (CSA): 1/10 of 1% per annum

The Debenture Interest Rate plus the above fees equals the full term effective rate.

PREPAYMENT OF LOAN

A SBC may pay off its 504 loan prior to the scheduled maturity date, but will incur a prepayment premium over the first half of the term of the debenture. This premium is equivalent to one year's interest calculated on the remaining principal balance of the debenture and reduces by a factor of 10% annually. Additionally, the note may only be prepaid on the debenture's semi-annual payment date. Should the SBC wish to make accelerated payments, it is usually suggested that they reduce the first mortgage balance, if no such prepayment conditions exist.

The following example provides an illustration of the prepayment premium based on a debenture in the original amount of $100,000.00 at a stated debenture rate of 5.0% over the first 11 years of a 20 year debenture:

Year	Principal		Rate		Factor		Premium
1	$97,012.59	x	5.0%	x	1.00	=	$4,850.63
2	93,872.54	x	5.0%	x	.90	=	4,224.26
3	90,571.74	x	5.0%	x	.80	=	3,622.87
4	87,102.06	x	5.0%	x	.70	=	3,048.57
5	83,454.86	x	5.0%	x	.60	=	2,503.65
6	79,621.07	x	5.0%	x	.50	=	1,990.53
7	75,591.14	x	5.0%	x	.40	=	1,511.82
8	71,355.02	x	5.0%	x	.30	=	1,070.33
9	66,902.18	x	5.0%	x	.20	=	669.02
10	62,221.52	x	5.0%	x	.10	=	311.11
11	57,301.39	x	5.0%	x	0.00	=	0.00

FIRST MORTGAGE LENDER FEES AND CERTIFICATIONS

A one-time **Participation Fee** of ½% of any mortgages that are senior to the SBA mortgage is due from the bank at closing and payable to the Central Servicing Agent through the CDC. According to SBA regulations, this fee is generally not to be passed on to the borrower. The Bank must also certify, in a bank letter of intent/commitment, that the desired credit is unavailable to the applicant on reasonable terms and conditions from non-Federal sources without SBA assistance.

ENVIRONMENTAL REPORT

SBA requires an Environmental Investigation of all commercial property upon which a security interest is offered as security for the 504 loan. If the current and known prior uses match an environmentally sensitive industry, the Environmental Investigation must begin with a Phase I. Gas stations, with or without convenience stores, must begin with a Phase II. All others may just require an Environmental Questionnaire and a Records Search With Risk Assessment.

FLOOD/EARTHQUAKE HAZARDS

A loan recipient must obtain flood insurance if any building, machinery, or equipment acquired, installed, improved, constructed, or renovated with the proceeds of SBA financial assistance is located in a special flood hazard area. In the construction of a new building or an addition to a building, the construction must conform with the "National Earthquake Hazards Reduction Program Recommended Provisions for the Development of Seismic Regulations for New Buildings."

START-UP BUSINESS
If the SBC has been in operation for a period of 2 years or less, it must provide an additional 5% of the eligible project costs, thereby reducing the SBA 504 loan participation to 35 percent.

SINGLE PURPOSE BUILDING
If the project involves a limited or single-purpose building or structure, the SBC must provide an additional 5% of the eligible project costs, thereby reducing the SBA loan participation to 35% (or 30% if also a start-up). A limited market property has a unique physical design, special construction materials, or a layout that restricts its utility to the use for which it is built. Examples include gas stations, motels, car washes, bowling alleys or any other facilities that would have limited markets or would require extraordinary costs to make them marketable.

APPRAISALS
The SBA requires appraisals for all financing packages where more than $250,000 of the authorized proceeds will be used for real estate transactions. All appraisals must be performed by either a State licensed or State certified appraiser. The appraisal report must be prepared in compliance with Uniform Standards of Professional Appraisal Practice (USPAP) and must be either a self-contained appraisal report or a summary appraisal report. In order to be acceptable to the SBA, the report must be addressed to both the third party lender, HCDC and/or the SBA. If the project involves new construction or substantial renovations, the appraisal must estimate what the market value will be at completion and after construction is completed, issue a certification that the work was done in accordance with the plans or specifications.

PERSONAL RESOURCES
Any individual holding 20% or more ownership of a company, will be required to invest his/her own personal liquid assets in excess of:

Tier 1: 2 times the total project financing, or $100,000, if total project financing is $250,000 or less.
(Ex: financing is $200,000; each owner would be allowed to keep $400,000 in liquid assets.)
Tier 2: 1.5 times the total project financing, or $500,000, if total project financing is $250,000 to $500,000
Tier 3: 1.0 times the total project financing, or $750,000, if total project financing exceeds $500,000.

METHOD OF DEBENTURE PAYMENTS
Monthly payments on the SBA debenture will be made by an automatic electronic transfer from an account designated by the SBC. Payments are due the first of each month following funding of the debenture.

INDEMNIFICATION
The applicant will indemnify and hold HCDC and/or its agents harmless from any and all loss or injury including reasonable attorney fees resulting from or arising from failure by the applicant to receive such loan, and/or any loss or liability to applicants or the business of the applicant.

NO REPRESENTATION
Funding of the 504 Debenture and disbursement of loan proceeds is subject to your satisfactory compliance with the terms and conditions set forth in the SBA's Authorization and Debenture Guarantee (SBA Form 1248). By signing this Disclosure Statement you acknowledge that you have not relied upon any representations made by HCDC and/or it agents, and that HCDC and/or its agents have made no representations or promises to the applicant and its agents regarding formal HCDC and SBA approval of your loan or of your qualifications to receive a loan through the 504 Program.

NO ADDITIONAL PROVISIONS
All parties agree that there are no other promises, terms, or agreements (oral or written) between HCDC and the undersigned, and that the program's rules and fees are subject to change at any time.

The undersigned acknowledges that it understands the provisions described within this Disclosure Statement.

ELIGIBLE PASSIVE COMPANY
(if operating company will not hold title)

_____

Signature:_____

Name: (Print)_____

Title:_____

Date:_____

OPERATING COMPANY

_____

Signature:_____

Name: (Print) _____

Title:_____

Date:_____

(Updated – 11/2011)