

Chesapeake Business Finance Corp.

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504 Updates

Chesapeake News

- * **New Counties:** Chesapeake has expanded its Area of Operations to include Baltimore, Carroll, and Frederick Counties. Others are pending.
- * **Loan Approvals:** Chesapeake's loan approvals increased dramatically for the fiscal year ending September 30, 2002. Special thanks to the participating banks!
- * **Use of Proceeds:** Most 504 loans help businesses purchase their property for business use. Two recent Montgomery County 504 loans are helping businesses construct new buildings.

Mezzanine Financing

Chesapeake Business Finance Corp's principals will be working with the Penn SE Mezzanine Fund to provide subordinated, unsecured mezzanine financing in amounts of \$250,000 - \$750,000 to small and mid-sized businesses. The Fund was organized in Philadelphia four years ago and has recently expanded its geographical area to include Maryland, DC and Northern Virginia. The Fund is somewhat like the SBA 504 loan program – but is for working capital not just fixed assets.

Most of the Fund's financing transactions are in the total range of \$2-5 million, and banks usually provide senior financing secured by receivables and inventory. The Fund makes subordinated loans, without collateral, that interest payments plus royalty-type success fees. The Fund makes smaller investments than SBICs, and it does not take stock ownership in the companies that it finances. The Fund's returns are in the 18-25% range - which is mid-way between the returns on collateralized loans from banks and equity investments from private investors and venture capital funds.

The Fund's mezzanine financing is used for management buy-outs, rapidly growing companies, acquisitions, and re-capitalizations. The Fund provides sub-debt financing to businesses in a wide range of industries in manufacturing, distribution and services.

For additional information about the Fund, check its web-site at www.mezzfund.com or call John Sower, President of Chesapeake Business Finance Corp, at 202-342-2973.

Why do Businesses Use the SBA 504 program?

Low down payments: A recent informal survey of SBA 504 loan borrowers indicates that the main reason that businesses use the SBA 504 program is low down payments in purchasing property for business use. Why should business owners pay rent when they can get low-interest, fixed-rate, low-down-payment financing to purchase and own their own property?