

SBA 504 Loan Program

The SBA 504 Loan Program is a Small Business Administration program designed to promote economic development within our community. The loan program is facilitated with a partnership of local banks and community development companies. Eligible projects are funded with 50% from a conventional loan at market rates and terms, up to 40% from a SBA funded loan (backed by a 100 percent SBA-guaranteed debenture) with a low 20 year fixed rate and as little as a 10% down payment from the business.

How May Funds Be Used?

Proceeds from a SBA 504 Loan must be used for large fixed asset projects such as:

- Purchasing land and improvements, including existing buildings, grading and street improvements, utilities, parking lots and landscaping as well as soft costs associated with the project;
- Construction of new facilities, or modernizing, renovating or converting existing facilities;
- Purchasing long-term machinery and equipment.

The SBA 504 Program cannot be used for working capital, inventory, or debt refinancing, however SBA offers alternative financing options under the SBA 7(a) Program. SBA 504 loan proceeds cannot be used for leasehold improvements to space leased to a non-affiliated tenant.

Who is Eligible?

To be eligible for the 504 Loan Program, businesses must operate for profit, meet minimum credit standards and be deemed a "small business" as defined by SBA. A small business has a net worth less than \$7 million and a two-year average net income less than \$2.5 million after tax. Loans cannot be made to businesses engaged in speculation or investment in rental real estate. In order to meet the job creation criteria for the community development goal generally, a business must create or retain one job for every \$50,000 provided by the SBA.

Minimum/Maximum SBA Loan Sizes

- SBA Loan is typically 40% of the project
- Minimum SBA Loan is \$50,000
- Maximum SBA Loan is \$1 million
- For companies meeting a specific public policy goal, the maximum loan is \$1.3 million

Collateral

Generally, the project assets being financed are used as collateral. Personal guaranties of the principal owners are also required.

If the business has elected to have a separate entity own the real estate; the operating company will be required to be a co-borrower or guaranty the loans. All principal owners over 20% in both the real estate entity and the operating company will be required to offer personal guaranties.

Terms, Interest Rates and Fees

Interest rates on the SBA 504 loans are pegged to an increment above the current market rate for five-year and 10-year U.S. Treasury issues. Maturities of 10 and 20 years are available. The SBA Loan Fees total approximately three percent of the debenture amount.

Advantages of the SBA 504

SBA 504 loans are distinguished from conventional loans in the following ways:

- **Lower Down Payment.** Allows you to conserve valuable operating capital by injecting as little as 10 percent of total project cost. Loans to newer companies and special purpose real estate may require more down.
- **Fixed Rate on the SBA Portion.** You can better manage your cash flow because you know the amount of your mortgage payments for the next 20 years.
- **Low interest rate.** Even with all the fees and closing costs included in the rate, it is still a low rate for a subordinate mortgage loan, particularly for small business.
- **All project costs can be financed.** Land and building, construction costs, as well as soft costs such as title insurance, legal, appraisal, environmental and bridge loan fees can be included. Closing costs may also be financed.
- **Collateral is typically secured by the asset financed.** This allows other assets to be free of liens and available to secure other financing you may need.

