

SBA (504) Loan Program

The 504 Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from a local or regional community development corporation (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost and a contribution of at least 10 percent equity from the small business being helped.

Maximum Debenture

The maximum SBA debenture is \$1,500,000 when meeting the job creation criteria or a community development goal. Generally, a business must create or retain one job for every \$50,000 provided by the SBA, except for "Small Manufacturers," which have a \$100,000 job creation or retention goal (see below).

The maximum SBA debenture is \$2.0 million when meeting a public policy goal. The public policy goals are as follows:

- Business district revitalization
- Expansion of exports
- Expansion of minority business development
- Rural development
- Increasing productivity and competitiveness
- Restructuring because of federally mandated standards or policies
- Changes necessitated by federal budget cutbacks
- Expansion of small business concerns owned and controlled by veterans (especially service-disabled veterans)
- Expansion of small business concerns owned and controlled by women

The maximum debenture for "Small Manufacturers" is \$4.0 million. A Small Manufacturer is defined as a small business concern that has:

1. Its primary business classified in sector 31, 32, or 33 of the North American Industrial Classification System (NAICS) and
2. All of its production facilities located in the United States.

In order to qualify for a \$4 million 504 loan, the Small Manufacturer must (1) meet the definition of a Small Manufacturer described above, and (2) either (i) create or retain at least 1 job per \$100,000 guaranteed by the SBA [Section 501(d)(1) of the Small Business Investment Act (SBI Act)], or (ii) improve the economy of the locality or achieve one or more public policy goals [sections 501(d)(2) or (3) of the SBI Act].

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WHAT FUNDS MAY BE USED FOR:

Proceeds from 504 loans must be used for fixed asset projects such as: purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots and landscaping; construction of new facilities, or modernizing, renovating or converting existing facilities or purchasing long-term machinery and equipment. The 504 Program cannot be used for working capital or inventory, consolidating or repaying debt or refinancing.

TERMS, INTEREST RATES AND FEES:

Interest rates on 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. Fees total approximately three (3) percent of the debenture and may be financed with the loan.

COLLATERAL:

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

ELIGIBLE BUSINESSES:

To be eligible, the business must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, the business qualifies as small if it does not have a tangible net worth in excess of \$7 million and does not have an average net income in excess of \$2.5 million after taxes for the preceding two years. Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

This is merely a brief description of the 7(a) program and is not intended to fully disclose all the requirements and criteria for this program. More information regarding this program and other SBA services can be found at: <http://www.sba.gov/>.

For more information, contact the EDC at (309) 661-6332