

SBA 504 Loans . . . the way to finance Small Business Expansion!

504 loans are for small business owners who...

- ✓ Want to **own their own workplace** - retail, professional building, manufacturing facility, warehouse
- ✓ Decide to **build a new building** for their business, office, restaurant, hotel, franchise operation
- ✓ Need to **purchase machinery or equipment**

What is the SBA 504 loan program?

The SBA 504 Loan Program is the Small Business Administration's (**SBA's**) **economic development financing program** that helps American small businesses grow while benefiting communities through tax base expansion, business growth and job creation. Loans are available for all types of small*, for-profit businesses to purchase and/or renovate capital assets including land, buildings and equipment.

* Tangible net worth under \$8.5 million and average after-tax profit under \$3 million for two preceding years.

How does it work? *through your local Certified Development Company...*

Financing is provided through **Certified Development Companies (CDCs)**. CDCs are economic development organizations that are certified by the Small Business Administration to make loans under the SBA 504 loan program. The CDC works with the small business borrower to process, approve, close and service the SBA 504 loan. Funding is provided by the CDC issuing a 10 or 20-year bond that is sold to investors on Wall Street. These bonds are attractive to investors since they are fully guaranteed by the U.S. Treasury in the event a small business should default.

Advantages of an SBA 504 loan

Low downpayment

As little as 10%. Lets the small business owner preserve critical working capital.

Long term financing

SBA 504 loans offer **10 or 20 year** fully amortizing terms. Because the CDC is in a second lien position, the bank or other lender providing the 50% first lien loan is willing to lend for a longer term.

Low, fixed interest rate

The **interest rate is fixed** for 10 or 20 years. No worries about the prime lending rate going up. Even with fees and closing costs included in the rate, 504 loans still offer a **below market rate for subordinate financing**, particularly for a small business.

Advantages for the bank

The banker participating as the first mortgage lender receives **CRA credits**; lends at a **lower loan to value ratio**; keeps a growing **customer happy**; and has **lower risk** because the SBA 504 loan is in a subordinate position to the bank loan.

Eligible 504 Projects

Fixed-Asset Acquisition or Expansion, Including:

- ✓ Purchase land and construct new buildings
- ✓ Purchase and/or renovate existing buildings
- ✓ Acquire/install machinery
- ✓ Construct or remodel buildings on leased land

504 Project Profile

Projects range from \$500,000 up to \$10,000,000

Maximum Amount of 504 Loan – Up to \$1,500,000 - Maximum 40% of project costs. (*Maximum increased to \$2,000,000 if project meets one of SBA's "Public Policy Goals" or \$4,000,000 for manufacturing projects.*)

Job Creation or Retention - Debenture funding is tied to job creation or retention, and companies must demonstrate their project will create or retain jobs for their community; *or, alternatively, meet a Public Policy Goal such as Woman-owned, Veteran, Minority, or Rural Business Development.*

Typical 504 Loan Structure

Financing on \$1 Million Project

<u>Entity</u>	<u>Loan Amount</u>	<u>% of Project</u>	<u>Security</u>
Lender	\$500,000	50%	1st Lien
CDC/SBA	\$400,000 +fees	40%	2nd Lien
Borrower	\$100,000	10% *	
Total:	\$1,000,000	100%	

* Higher equity injection of 15-20% required for certain projects, such as start-ups or special purpose buildings

Additional information is available at the following websites:

www.sba.gov	<i>U.S. Small Business Administration</i>
www.nadco.org	<i>National Association of Development Companies</i>
www.nwpcog.org	<i>Northwest Piedmont Development Corporation</i>

Contact Your Local Certified Development Company Today!

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