

## 504 Loan Benefits for the Small Business

The 504 Loan program offers small businesses both immediate and long-term benefits, so business owners can focus on growing their business. Some of the top-level benefits include:

- 90% financing;
- Longer loan amortizations, no balloon payments;
- Fixed-rate interest rates; and
- Savings that result in improved cash flow for small businesses

## What is the 504 Loan Program?

The SBA 504 Loan program is a powerful economic development loan program that offers small businesses another avenue for business financing, while promoting business growth, and job creation. As of February 15, 2012, the \$50 Billion in 504 loans has created over 2 million jobs.

This program is a proven success and win-win-win for the small business, the community and participating lenders.



The 504 Loan Program provides approved small businesses with long-term, fixed-rate financing used to acquire fixed assets for expansion or modernization. 504 loans are made available through Certified Development Companies (CDCs), SBA's community based partners for providing 504 Loans.

## 504 Loan Structure

504 Loans are typically structured with SBA providing 40% of the total project costs, a participating lender covering up to 50% of the total project costs, and the borrower contributing 10% of the project costs. Under certain circumstances, a borrower may be required to contribute up to 20% of the total project costs.

An example of how a typical 504 loan is structured follows:

## How 504 Loan Funds May Be Used

The use of proceeds from 504 Loans must be used for fixed assets (and certain soft costs), including:

- The purchase of existing buildings;
- The purchase of land and land improvements, including grading, street improvements, utilities, parking lots and landscaping;
- The construction of new facilities or modernizing, renovating or converting existing facilities;
- The purchase of long-term machinery\* ; or
- The refinancing of debt in connection with an expansion of the business through new or renovated facilities or equipment\*.

## 504 Loan Eligibility

To be eligible for a 504 Loan, your business must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, a business qualifies if it has a tangible net worth not more than \$15 million, and an average net income of \$5 million or less after federal income taxes for the preceding two years prior to application.

Loans cannot be made to businesses engaged in nonprofit, passive or speculative activities. For additional information on eligibility criteria and loan application requirements, small business and lenders are encouraged to contact a Certified Development Company in their area.

## 504 Loan Specifics

### Maximum Loan Amount (Debenture)

While there is no maximum project size, the maximum SBA loan amount (debenture) is \$5 million. Small manufacturers or specific types of energy projects (as described in the energy project section) may qualify for a \$5.5 million debenture.\*\*

Generally, a business must create or retain one job for every \$65,000 guaranteed by the SBA. Small manufacturers must



create or retain a ratio of one job for every \$100,000. As an alternative to job creation or retention, your business may qualify if it meets a community development or public policy goal as long as the CDC maintains its portfolio job average requirements. These include:

## Community Development Goals

- Improving, diversifying or stabilizing the local economy;
- Stimulating other business development;
- Bringing new income into the community;
- Assisting manufacturing firms (North American Industry Classification System (NAICS), Sectors 31 to 33) and all of its production facilities located in the United States; or
- Assisting businesses in Labor Surplus Areas;

## Public Policy Goals

- Revitalizing a business district of a community with a written revitalization or redevelopment plan;
- Expanding exports;
- Expanding small businesses owned and controlled by women;
- Expanding small businesses owned and controlled by veterans (especially service-disabled veterans);
- Expanding minority business development;
- Aiding rural development;
- Increasing productivity and competitiveness (retooling, robotics, modernization, competition with imports);



## Modernizing or upgrading facilities to meet health, safety, and environmental requirements

- Assisting businesses in or moving to areas affected by Federal budget reductions, including base closings, either because of the loss of Federal contracts or the reduction in revenues in the area due to a decreased Federal presence; or;
- Reduction of rates of unemployment in Labor Surplus Areas determined by the Secretary of Labor; or
- Reduction of energy consumption by at least 10 percent;
- Increased use of sustainable design, including designate that reduce the use of greenhouse gas emitting fossil fuels, or low-impact design to produce buildings that reduce the use of non-renewable resources and minimize environmental impact, or
- Plan, equipment and process upgrades or renewable energy sources such as the small-scale production of energy for individual buildings or communities commonly known as micropower, or renewable fuels producers including biodiesel and ethanol producers.



### Collateral

Generally, the project assets being financed are used as collateral. Personal guaranties from owners of 20% or more are also required.

## Interest Rates and Fees

Interest rates on 504 Loans are correlated with the current market rate for 5-year and 10-year U.S. Treasury issues. Loan maturities of 10 and 20 years are available. Fees may be financed with the loan.

## Refinancing Program Advantages

This temporary 504 Refinancing Program allows for small businesses to now use excess equity in fixed assets to obtain working capital that can be used for financing eligible business expenses (salaries, rent, utilities, inventory, pay off or down business line or credit or other business obligations). This refinancing program affords the small business community money saving benefits, including:

- Consolidate existing debt (balloon and/or high interest rate loans)
- Lock in long-term, stable financing, reducing fluctuating expenses
- Finance eligible business expenses, saving needed cash-flow
- Protect jobs and hire additional staff, supporting the local community
- Include closing costs in the transaction, eliminating cash-flow drain

### FOR MORE INFORMATION CONTACT



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SBA 504 Loan Program