

SBA The Money that Makes America Work

504

[New increased lending limits!]



[Broader eligibility!]

What is the SBA 504 Loan Program?

The SBA 504 Loan Program is the Small Business Administration's (SBA) 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.

Since 1980, the SBA has approved over 70,000 SBA 504 loans, nationally. This represents financing of over \$40 billion and resulting in the creation or retention of over 1,000,000 jobs nationally.

*Net worth under **\$15 million** and net annual profit under **\$5 million**, however, there are some exceptions

How Does it Work?

Financing is arranged through Certified Development Corporations (CDC) such as E.C.I.A. Business Growth, Inc. CDCs are local, regional or statewide 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 arranged 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.

Eligible 504 Projects

Fixed-asset acquisition or expansion including:

- Purchase of land and/or construction of new buildings
- Purchase and/or renovation of existing buildings
- Acquisition/installation of machinery
- Construction and/or remodeling of buildings on leased land

Advantages of an SBA Loan

Low down payment - as little as 10%. Allows the small business owner to preserve critical working capital.

Long term - SBA 504 loans are for 10 to 20 years. 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.

Fixed, low interest rate - The mortgage payment amount 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, it is still a low rate for a subordinate mortgage loan, particularly for a small business.

Advantages to the bank - The banker, participating as the first mortgage lender, receives CRA credits; lends at 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.

Lending Parameters of an SBA Loan [New increased lending limits!]

Minimum amount of 504 loan - \$50,000

No maximum limit to project size, SBA participation is limited to:

- Maximum amount of up to **\$5,000,000**
- **\$5,500,000** if a manufacturer or energy-related project

Typical 504 Loan Structure

Financing of typical \$1,000,000 project:

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

*Note: Equity of 15-25% will be required for start-ups and businesses with irregular profitability, lack of historical debt service ability, a short track record, or single purpose properties.

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E.C.I.A. Business Growth, Inc. operates business loan programs including the SBA 504 Program and several Revolving Loan Funds. The primary purpose of these programs are to promote the expansion of area businesses and to create jobs.

ECIA
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Financing for Growing Businesses

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