

504 Loan Program  
U.S. Small Business Administration

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# 504 Program Updates

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- ▶ Final Rule released March 21, 2014 becomes effective April 21, 2015 :

Corporate Governance impacting CDCs:

- no membership requirement
- affiliation issues with COGs resolved

Expanding Program Eligibility for Borrowers

- removed Personal Resource Test
- expanded timeframe of eligible project cost

## 504 Loans Help Small Businesses Leverage Capital

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In a 504 Loan Project, the Bank has a first lien on project collateral and SBA has a second lien on project assets.

### Example of Loan Project

- ▶ \$500,000    50%    Bank
- ▶ **\$400,000    40%    SBA/504**
- ▶ \$100,000,    10%    Borrower (+5% start-up; +5% special purpose)

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**Total Project \$1,000,000    Job Creation/Retention = 7 jobs**

**Maximum loan size - \$ 5.5 million for energy public policy or small manufacturing ; otherwise \$ 5 million**

**Dollars/Job - \$65,000 per job**



## Fixed Asset Financing in 504 Loan Project

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### 504 Loan (up to 40% of Total Project) may be used for:

- ▶ Building Purchase
- ▶ Land
- ▶ Building Construction
- ▶ Renovation
- ▶ Equipment
- ▶ Furniture
- ▶ Soft Costs Directly Attributable to Project (ex: Architect Fees)

Interest Rate: Fixed rate for life of 504 loan

Terms: Land/Building – 20 years; Equipment – 10 years

Collateral - Generally, the project assets being financed are used as collateral.

Guarantees - Personal guaranties from owners of 20% or more are also required.



# Energy Public Policy Goals

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- ▶ Up to \$5,500,000 for each project that :
  - ▶ reduces the Borrower's energy consumption by at least 10%; or
  - ▶ generates 10% of business energy for small business; solar panels, wind power, geothermal, micropower, or renewable fuel producers including biodiesel and ethanol producers.
- ▶ Up to \$5,000,000 for each projects involving sustainable design



# Manufacturing

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Up to \$5,500,000 for each Project for Small Manufacturers (defined as a business with its primary NAICS Code in Sectors 31, 32, and 33, and all of its production facilities are located in the United States);

- ▶ one Project for the same applicant or for its affiliates provided that SBA determines that each Project meets prudent lending standards.
- ▶ Note: 504 loans made for Projects for small manufacturers or eligible energy loans as described above do not reduce the \$5,000,000 limit for each small business concern for regular 504 loans and loans for Public Policy Projects.



## 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. This program is a proven success and win-win-win for the small business, the community and participating lenders. SBA has no geographic restrictions on the 504 loan program.

**Public/Private Partnership** - The 504 Loan Program is an example of public/private partnerships in economic development. Banks provide 50% of project financing and the SBA 504 Loan Program can provide up to 40%. The minimum borrower injection is 10%.

**Long-Term/Fixed-Rate Financing** - The 504 Loan Program provides approved small businesses with long-term, fixed-rate financing used to acquire fixed assets for expansion or modernization.

**Local Economic Development** - 504 loans are made available through Certified Development Companies (CDCs), SBA's community based partners for providing 504 Loans.



## 504 Loan Eligibility

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- ▶ **Small Business Size** - 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.
- ▶ **For Profit/Not Passive or Speculative** - Loans cannot be made to businesses engaged in nonprofit, passive or speculative activities.
- ▶ **Job Creation/Retention Requirements** - 1 job per \$65,000/504 loan
- ▶ **CRA** - 504 projects are eligible for Community Reinvestment Act Credit





## 504 Contacts

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