504 Loan Program
U.S. Small Business Administration
504 Program Updates

- 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
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
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

- 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 project involving sustainable design
Manufacturing

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.
**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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