



SBA 504 Loan Program

The Certified Development Company 504 loan program is a long-term financing tool for economic development within a community. The 504 Program provides small businesses requiring “brick and mortar” financing with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization. A Certified Development Company (CDC) is a private, nonprofit corporation set up to contribute to the economic development of its community. CDCs work with SBA and private sector lenders to provide financing to small businesses.

Typically, a 504 project includes:

- A loan secured from a private sector lender with a senior lien covering up to 50 percent of the project cost;
- A loan secured from a CDC with a junior lien covering up to 40 percent of the total cost;
- A contribution from the borrower of at least 10 percent equity.

How Funds May Be Used

Proceeds from 504 loans must be used for fixed asset projects, such as:

- Purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots and landscaping;
- Construction of new facilities or modernizing, renovating or converting existing facilities;
- Purchasing long-term machinery and equipment.

The 504 Program cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing.

Eligibility

To be eligible for a CDC/504 loan, the business must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, the business qualifies as small if it does not have a tangible net worth in excess of \$8 million and does not have an average net income in excess of \$3 million after taxes for the preceding two years. Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

Maximum Loan Amount

The maximum SBA loan is \$1.5 million when meeting the job creation criteria or a community development goal. Generally, a business must create or retain one job for every \$65,000 provided by the SBA except for small manufacturers, which have a \$100,000 job creation or retention goal (see below).

The maximum SBA loan is \$2.0 million when meeting a public policy goal. These include:

- Business district revitalization.
- Expansion of exports.
- Expansion of minority business development.
- Rural development.
- Increasing productivity and competitiveness.
- Restructuring because of federally mandated standards or policies.
- Changes necessitated by federal budget cutbacks.
- Expansion of small business concerns owned and controlled by veterans (especially service-disabled veterans).
- Expansion of small business concerns owned and controlled by women.

The maximum loan for small manufacturers is \$4.0 million. A small manufacturer is defined as a company that has its primary business classified in sector 31, 32, or 33 of the North American Industrial Classification System (NAICS) and all of its production facilities located in the United States. To qualify for a \$4.0 million 504 loan, the business must meet the definition of a small manufacturer and:

- Either create or retain at least one job per \$100,000 guaranteed by the SBA [Section 501(d)(1) of the Small Business Investment Act (SBI Act)]
- Or improve the economy of the locality or achieve one or more public policy goals [sections 501(d)(2) or (3) of the SBI Act].

Interest Rates and Fees

Interest rates on 504 loans are pegged to an increment above the current market rate for five-year and 10-year U.S. Treasury issues. Maturities of 10 and 20 years are available. Fees total approximately 3 percent of the loan and may be financed with the loan.

Important Notification Below:

504 Development Company Program Fee Eliminations:

For eligible loans approved through the Agency's section 504 Development Company Program on or after February 17, 2009, SBA will temporarily eliminate two program fees: 1) Third-Party Participation Fees (Small Business Investment Act Section 503(d)(2) fees codified at 13 CFR 120.972); and 2) CDC Processing Fees (13 CFR Section 120.971(a)(1) fees). Consistent with the Recovery Act's temporary elimination of CDC Processing Fees, CDCs will no longer be allowed to collect deposits from small business applicants that would have gone towards payment of the CDC Processing Fee upon loan approval under 13 CFR 120.935. SBA will reimburse the CDCs for the waived CDC Processing Fees.

SBA will pay CDCs two-thirds of the estimated CDC Processing Fee at the time of loan approval by SBA or upon the issuance of a loan number for a loan approved under the Premier Certified Lenders Program. The remainder of the fee will be paid immediately following loan funding and will be equal to 1.5% of net loan proceeds for which a CDC does not collect the CDC Processing Fee, minus the amount previously paid. If a borrower has already paid a CDC for the fee, the CDC must reimburse the borrower from the SBA refund. SBA will not permit CDCs to cancel loans approved by SBA prior to February 17th, 2009 and resubmit them in order to qualify for the reimbursement of the processing fee. If the Participation Fee has already been paid to SBA on an eligible loan, SBA will refund the fee.

SBA will eliminate the Participation Fee and the CDC Processing Fee until the aggregate dollar amount of 504 loans made under this authority exhausts the funds dedicated to that purpose. SBA currently estimates that program level will be approximately \$3.6 billion.

Collateral

Generally, the project assets being financed are used as collateral. Personal guaranties of the principal owners are also required.

For More Information

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