

SBA 504 LOAN PROGRAM

Fact Sheet

Congress established the Small Business Administration (SBA) 504 loan program in order to promote the growth of small and medium sized businesses by expanding their access to favorable long-term fixed asset financing. Borrowers and lenders can access 504 financing through a “Certified Development Company” (CDC) that is certified and regulated by the Small Business Administration to make 504 loans.

Community Ventures (CV), an SBA Certified Development Company, serves the entire state of Kentucky. CV has been providing 504 loans to borrowers since 2000.

HOW IT WORKS: The SBA 504 program provides a maximum of 40% permanent financing of eligible project costs and takes a second lien on the collateral. A bank or credit union, selected by the applicant, finances 50% of the project and takes a first lien on the collateral. The applicant, in most cases, provides the remaining 10%. Typically, the bank/credit union lender will provide 90% of the project costs until project debenture funding, at which time, the proceeds are applied to the interim loan reducing the lender’s loan to 50% of the project.

START-UP BUSINESSES: If the small business has been in operation for 2 years or less, it must provide an additional 5% of eligible project costs, thereby reducing the SBA 504 loan participation to 35%.

SINGLE PURPOSE BUILDING: If the project involves a limited or single purpose building, the small business must provide an additional 5% of eligible project costs, thereby reducing the SBA loan participation to 35% (or 30% if the business is also a start-up). Examples of single-purpose buildings include hotels, gas stations, car washes, bowling alleys, etc.

BENEFITS TO SMALL BUSINESS:

- 20-year and 25-year, fixed rate financing
- Low fixed interest rate
- 10% down payment typically (except single purpose and start-ups)
- Conserve working capital for business growth
- Soft costs can be included in project financing
- Most small businesses are eligible

- ELIGIBLE COMPANIES:** For-profit business located in the United States. Tangible net worth not in excess of \$15 million and average net income after federal income taxes for the preceding two completed fiscal years of \$5 million or less.
- ELIGIBLE PROJ. COSTS:** Purchase of land (plus improvements); construction of new building(s); purchase of an existing building plus necessary renovations; acquire and install machinery/equipment with a useful life of 10 years; furniture and fixtures if essential to and a minor part of the project; refinance qualified asset-backed debt up to a maximum of 50% of the new project; and professional fees (title insurance and searches, surveys, environmental reports, appraisals, attorney fees, architect/engineering fees, interim interest and loan fees; etc.)
- MAXIMUM LOAN:** \$5,000,000 for most 504 loans and \$5,500,000 for small manufacturers and borrowers whose project generates renewable energy or fuels.
- OCCUPANCY REQUIREMENTS:** Business must occupy at least 51% of an existing building (may lease up to 49%). For a newly constructed building, the business must occupy 60% initially and can lease 20% indefinitely.
- JOB REQUIREMENTS:** One job must be created over a two-year period for each \$75,000 of SBA investment. The job requirement may be waived, if other Community Development or Public Policy goals are met.
- REAL ESTATE OWNERSHIP:** Eligible Passive Company (EPCs) and certain trusts may hold title to the real estate and lease the facility (lease terms must match or exceed the 504 terms) to the small business.
- GUARANTEES:** Personal guarantees are required of all principals owning 20% or more of the business, and in cases where an EPC holds the title to the real estate, a corporate guarantee is also required.
- APPRAISALS:** SBA requires appraisals on real property financed with SBA 504 loan proceeds. For equipment only deals, new equipment may be financed on the basis of cost, but used equipment must be appraised. All appraisals must be performed by either a State licensed or State certified appraiser.
- ENVIRONMENTAL:** SBA requires that an environmental investigation be performed on every project, however, the level of investigation varies according to the historic use of the project real estate.
- REPAYMENT OF LOAN:** A business can pay off its 504 loan prior to the scheduled maturity date; however, the borrower will incur a prepayment premium if the loan is paid off during the first half of the loan term. If the 504 loan is prepaid,

it must be prepaid in full. If the business wishes to make accelerated payments, it is usually suggested that they reduce the first mortgage balance if no such prepayment conditions exist.

**TYPICAL LOAN
STRUCTURE:**

\$1,000,000 Purchase Price

\$500,000 (50% of project): Lender's portion, 1st lien position

\$400,000 (40% of project): SBA portion, 2nd lien position

\$100,000 (10% of project): Borrow / Owner Equity injection

APPLICATION FEE:

An application fee of \$300.00 is required at the time CV accepts the application for processing.

For more information contact: Lynn Littrell at llittrell@cvky.org or call 859-231-0054 ext. 1005.

This document is intended for information purposes only. It is not meant to be a complete summary of all SBA 504 loan policies and requirements. Each loan applicant is solely responsible for determining, understanding and following all 504 Loan Program policies and requirements.

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