



U.S. Small Business
Administration

504 – SBA’s Economic Development Program

The SBA 504 Loan program is an economic development loan program that offers small businesses an avenue for business financing, while promoting business growth and job creation.

Public/Private Partnership - The 504 Loan Program is an example of public/private partnerships in economic development. Banks typically 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 below market 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.

Certified Development Corporations (CDCs) deliver the SBA 504 loan program

- Vermont 504 Corporation (VEDA)
- Granite State Economic Development Corporation
- New England Certified CDC
- Bay Colony Development Corporation

SBA 504 Loans

Benefits of the 504 Loan program to small businesses

- Low 10% equity requirement (15% startups, special purpose R/E)
- Historically low long term fixed rate financing:
 - **20 year – 3.483%**
 - **25 year – 3.637%**
 - **10 year – 3.421%**
- Fully amortizing – no balloon payments
- Longer term provides lower payments and improves cash flow

Benefits to Lenders

- Lender finances 50% of project (SBA does 40%, business 10%)
- Lender holds 1st lien position on project assets = low credit risk
- Lender sets interest rate on their 50% first mortgage loan
- Community Reinvestment Act credit for lender

504 Loan Eligibility

- **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** –
 - Regular 504-- 1 job per \$75,000
 - Specialty Zones (now includes Opportunity Zones) – 1 job per \$85,000
 - Small Manufacturing– 1 job per \$120,000

SBA 504 has four (4) major types:

- Regular 504 loan
- 504 Debt Refinance – with/without expansion
- Energy Efficiency
- Manufacturing

Fixed Asset Financing in 504 Loan Project

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

Building Purchase

Land

Building Construction

Renovation

Equipment

Furniture

Leasehold Improvements

Soft Costs Directly Attributable to Project (ex: Architect Fees)

Interest Rate: Fixed rate for life of 504 loan

Terms: Land/Building – 20 or 25 years; Equipment – 10 years; Can do FF&E as part of a 20 or 25 year debenture using a weighted average.

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

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

Loan Amounts

- Total Project Size
 - Project size – up to \$20 million and beyond, including
 - Purchase of land, building, equipment
 - Construction and/or renovations
- SBA Loan Size
- Regular 504 loan minimum is \$25,000 with a maximum of \$5,000,000
- 504 Refinance up to a maximum of \$5,000,000
- Eligible Energy Efficiency goal up to a maximum of \$5,500,000 per project (total aggregate \$16.5 million)
- Manufacturing up to a maximum of \$5,500,000

504 Loan Program Public Policy Goals

- Maximum Loan Size - \$5 million unless project meets public policy goal of manufacturing or energy
- Multiple \$5.5 million in 504 loans for projects (up to aggregate of \$16.5 million) that include either:
 - Small manufacturers
 - Energy Public Policy Projects:
 - Reduction of existing energy consumption by at least 10%
 - Plant, equipment and process upgrades of renewable energy sources such as: solar, wind, biodiesel, ethanol –at least 15% of total energy production from improvements.

SBA Community Advantage Loan

- Mission based lenders – VEDA and Vermont Community Loan Fund
- Maximum loan amount \$250,000
- Lenders get a guarantee of 85% for loans up to \$150,000 and 75% for loans \$150,000 and over.
- Underserved markets – includes OZ