



U.S. Small Business
Administration

Introduction to the 504 Loan Program

504 – SBA’s Economic Development Program

The SBA 504 Loan program is a powerful 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.

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** (does not apply to Energy Policy Loans) –
 - Regular 504-- 1 job per \$75,000
 - Specialty 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 Loans Help Small Businesses Leverage Capital

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)

Total Project \$1,000,000 Job Creation/Retention = 6 jobs (5.52 jobs rounded up)

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.

Third Party Lender Collateral Requirements

- §120.920 allows Third Party Lender (TPL) to take additional collateral only if:
- TPL must first apply all proceeds from liquidation of additional collateral to balance due on the TPL loan
- Then TPL can apply proceeds from 504 Project Property
- Only for 504 loans

Increasing Lender Awareness of 504 Program Advantages

504 Program Advantages

- Enabling customers access credit when credit otherwise not available
- Lender has 50% of total project and 1st lien on project collateral
- Increase number of projects lender can participate in
- Leverages Wall Street investment to your community
- Customer satisfaction – 504 has 40% of project with fixed rate for 10/20/25 years
- Community Reinvestment Act Credits
- HVADC liquidity reserve mitigation
- Economic development and job creation/retention



Benefits of 504 Program for Lenders

Reasons to Participate with SBA:

- Expand Services Available to Small Businesses in Your Community
- Economic Development- Job Creation
- Community Reinvestment Act (CRA) credits
- HVADC liquidity requirement mitigation
- Risk Management
- Manage Liquidity
- Profitability
- Resource with SBA Lending Experience
- Helps Lenders stay current with SBA requirements



504 Loan Eligibility – Lender Participation Advantages

CRA – 504 projects are eligible for Community Reinvestment Act Credit

The Community Reinvestment Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations. It was enacted by the Congress in 1977 (12 U.S.C. 2901) and is implemented by Regulation BB (12 CFR 228). The regulation was substantially revised in May 1995 and updated again in August 2005.

- OCC Article on 504 – encourages Lender participation
- Update in development – last published 2010

Upcoming 504 Connect Calls

504 Connect Call June 4, 2019 at 3:00 Eastern

Dial in: **1-877-369-5243** or 1-617-668-3633

Access Code: **0362747##**

*Entry Link: <http://ems8.intellor.com/login/812219>

504 Connect Call September 10, 2019 at 3:00 Eastern

Dial in: **1-877-369-5243** or 1-617-668-3633

Access Code: **0612973##**

*Entry Link: <http://ems8.intellor.com/login/812220>

504 Connect Call December 10, 2019 at 3:00 Eastern

Dial in: **1-877-369-5243** or 1-617-668-3633

Access Code: **0635975##**

*Entry Link: <http://ems8.intellor.com/login/812221>

*Note: Copy and paste the link directly into your web browser if you encounter difficulty logging in.



Support Available

- Lender Resources on SBA's website
 - Standard Operating Procedures (SOPs)
 - Forms
 - Loan Center email addresses for questions
- Lender Conferences
 - SBA District office events
 - NADCO
 - NAGGL
 - CUNA



Utilize SBA's Resource Partner Networks



- Small Business Development Centers (SBDC)
- Women's Business Center (WBC)
- SCORE
- Veterans Business Outreach Center (VBOC)