

SBA 504 – SMALL BUSINESS EXPANSION LOANS



Perfect for the Expanding Small Business
that is Ready to Put Down Roots!

When small business owners decide to buy, build or renovate commercial real estate, they are putting down roots in their communities — and taking a big step toward ensuring the continued growth and success of their businesses.

The Certified Development Company Economic Development Loan Program also known as the “SBA 504 loan program” offers most types of small businesses affordable financing for real estate, machinery and equipment purchases.

LOW DOWN PAYMENT LONG TERM FINANCING
FIXED, COMPETITIVE INTEREST RATES



Jake Armour Photography in Minneapolis, MN. Owners Jake and Hope Armour in front of their new building. SBA 504 loan provided by SPEDCO, New Brighton, MN.

While SBA 504 loans are designed to help entrepreneurs finance their facilities, they are also a valuable economic development tool since small business expansion benefits communities through job creation, business growth and increased tax revenues.



GREAT BENEFITS

With SBA 504 financing, entrepreneurs can purchase commercial real estate with a down payment as low as 10%. The small business owner not only gets the tax benefits and appreciation on the real estate, but also locks in occupancy costs for the long term with financing tailored to the entrepreneur's needs.

- **LOW DOWN PAYMENT & ENHANCED CASH FLOW:**

With financing available for up to 90% of the project cost, SBA 504 loans offer an affordable down payment, enabling the entrepreneur to conserve working capital and retain liquidity to meet operating needs.

- **LONG TERM FINANCING AT COMPETITIVE INTEREST RATES:**

SBA 504 real estate financing is 20-year, fully amortized financing. This enables a small business owner to pay for a facility over the long term, avoid risky loan call provisions and enjoy lower monthly payments. For current interest rates, visit www.nadco.org and click on **SBA 504 Interest Rates**.

- **PREDICTABLE MONTHLY PAYMENTS:**

SBA 504 financing allows small business owners to fix their business occupancy costs with an attractive, 20-year, fixed interest rate.

- **OWNERSHIP OPTIONS TAILORED TO MEET SMALL BUSINESS OWNER NEEDS:**

An entrepreneur can purchase and hold title to a building personally, in the name of the business or even set up a holding company for the real estate. This gives the small business owner the flexibility to maximize tax benefits of ownership and minimize liability in the manner best suited for the entrepreneur and his company. Additionally, two or more small businesses can receive an SBA 504 loan if they combine to create a real estate holding company. *For instance, this option works especially well for professionals in the medical, veterinary, legal and accounting fields.*

HOW IT WORKS

An SBA 504 loan is a partnership between a **Certified Development Company (CDC)**, the Small Business Administration (SBA) and a lender. CDCs are economic development organizations that have been certified by the SBA to make loans under the Certified Development Company Economic Development Loan Program with an **SBA 504 Loan**.

Working with a lender, the CDC provides up to 40% of the financing for commercial real estate purchase and new construction with an SBA 504 loan. A lender must partner with the CDC to typically provide 50% of the financing, while the entrepreneur ends up paying as little as 10% down.

The CDC works with the small business borrower to process, approve, close and service the SBA 504 loan. Funding is provided by the CDC issuing a 10- or 20-year debenture bond that is sold to investors on Wall Street giving entrepreneurs access to capital at low, fixed interest rates — usually only available to large corporations. Debenture bonds are also attractive to investors since they are backed by the SBA and fully guaranteed by the U.S. Treasury.

Owners of the Comstock Large Animal Hospital during construction of their new facility in Reno, NV. SBA 504 loan provided by Nevada State Development Corp., Reno, NV.

CDCs: GROWING SMALL BUSINESS, JOBS, COMMUNITIES

HOW BIG IS YOUR PROJECT?

Most growing businesses are adding staff as they expand and look for larger facilities. **This is when the SBA 504 loan is the perfect choice for financing.** SBA 504 loan size is linked to job creation. A small business owner must create and/or retain jobs OR meet a public policy or community development goal (i.e. minority, veteran or women-owned business) to qualify for an SBA 504 loan. In general, an entrepreneur can borrow \$65,000 in SBA 504 loan funding for each job created and/or retained within two years.

There is no limit to the total project cost, however, a CDC can lend you up to 40% of the project cost with a dollar cap of **\$1,500,000** depending on the type of project. CDCs can go as high as **\$2,000,000** of SBA 504 financing for public policy or community development projects* and up to **\$4,000,000** for eligible manufacturing projects and for projects that incorporate energy saving technologies for sustainable design.

*For complete details on the types of projects that qualify for public policy and community development goals, visit www.nadco.org.

THE NUTS & BOLTS

SBA 504 loans are for terms of either **10** or **20** years. The interest rate for the loan is fixed when the SBA sells the debenture bond to fund the loan.

The small business owner's payment includes a loan loss subsidy fee and program fees that are rolled into the monthly payment. **These loan fees are financed as part of the loan and are not an out-of-pocket expense for the entrepreneur.**

SBA 504 loans are fully amortized and have no balloon payments. *There is a prepayment premium for the first half of the loan term that decreases each year.*

READY TO BEGIN?

First, contact a CDC and speak with a loan officer to review and evaluate your project and your small business. See how the CDC loan officer can structure the financing to meet your unique requirements. If you do not know of a CDC in your area, visit www.nadco.org and click on **Member Directory** for a listing of CDCs in your state.

Next, contact your bank to see if they would like to participate by providing the permanent first mortgage and the interim construction loan for your project.

Your bank will probably have an SBA or government-guaranteed lending advisor who already works with the CDC in your area on SBA 504 loans.

The next steps are submitting your application for an SBA 504 loan, receiving approval and beginning your project.

You are well on your way to owning a beautiful, new "home for your business!"

Since 1980 over 105,000 SBA 504 loans have been made nationwide representing financing of over \$50 billion and resulting in the creation or retention of over 2 million jobs.



Owners of Seafood Connection, Inc. in San Jose, CA. SBA 504 loan provided by Bay Area Development Co., Walnut Creek, CA.



Staff in front of their new building at Anderson Engineering, Plymouth, MN. SBA 504 loan provided by SPEDCO, New Brighton, MN.



Owner of Knowlwood Restaurants in front of his restaurant in Irvine, CA. SBA 504 loan provided by Southland EDC, Santa Ana, CA.

SBA 504 LOAN – PERFECT FINANCING FOR YOUR NEW BUILDING



New building for the dental offices of All About Smiles in Durant, OK. SBA 504 loan provided by REI, Durant, OK.

THE LOAN BREAKDOWN

A bank or other lender typically finances 50% of the project cost and takes a first mortgage (lien) position on the assets financed. The first mortgage lender provides a commercial loan at current market rates and fees for their share of the project. The lender also provides the construction (also known as a bridge or interim) loan that is paid off from the proceeds of the SBA 504 loan. The CDC finances up to 40% of the project cost and takes a second mortgage position, while the small business owner provides a down payment that can be as low as 10%*.

ELIGIBILITY

Most small businesses qualify.

An entrepreneur has to be operating a for-profit business, organized as a corporation, sole proprietorship, partnership, LLC, etc., located in the U.S. that, with affiliates, has a tangible net worth of less than \$8.5 million and profit after taxes of less than \$3 million.

Also, the business must occupy at least 51% of its property for existing buildings or 60% of a newly constructed building. Two or more unrelated small businesses can receive an SBA 504 loan if they combine to meet occupancy requirements.

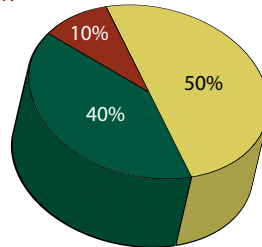
SBA 504 loans can NOT be used for working capital, mortgage broker fees, bridge or interim loan during the construction period, business inventory, or rolling stock (i.e. vehicles).

A business is ineligible if it is owned by persons who do not have permanent legal resident status, or if the business has restrictions on patronage, is government-owned, is a consumer or marketing cooperative, is engaged in loan packaging, has previously defaulted on a federal loan, is engaged in political or lobbying activities, or is a speculative business.

EXAMPLE OF FINANCING ON A TYPICAL \$1 MILLION PROJECT:

COST FOR PROJECT:

Acquisition of Building	\$800,000
Renovations	\$180,000
Soft Costs (i.e. appraisal, architects fees, closing costs)	\$20,000
TOTAL:	\$1,000,000**



PROJECT FINANCING:

ENTITY	LOAN AMOUNT	% OF PROJECT	SECURITY
■ Bank (Other lender)	\$500,000	50%	1st Lien
■ CDC/SBA 504 loan	\$400,000	40%	2nd Lien
■ Borrower down payment	\$100,000	10%*	
TOTAL:	\$1,000,000**	100%	

**An additional 5% down payment is required for certain projects like special purpose buildings (i.e. car wash, hotel) or for start up businesses. For both a new business and a special purpose building, the down payment is 20%.

COVER PHOTOS:

Left: Owners of the new East Charleston Animal Hospital in Las Vegas, NV. SBA 504 loan provided by Nevada State Development Corp., Reno, NV.

Middle: Construction of the new building for the law firm of Laxalt & Nomura in Reno, NV. SBA 504 loan provided by Nevada State Development Corp., Reno, NV.

Right: Owner of Ashtae Products, Greensboro, NC. SBA 504 loan provided by Self-Help Ventures Fund, Durham, NC.

CDCs: Growing Small Businesses, Jobs, Communities



For more information, visit www.nadco.org