



Commercial Real Estate Hot Topic

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The Facts and Benefits of SBA 504 Loans and How Everybody WINS!

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Found that perfect building, but your banker says you need 30% down? Don't have the 30% down and the amount for renovations and soft costs to still have enough working capital left over for the expansion? Well, by utilizing a 504 certified development company, you can get your loan to buy that building through the SBA 504 loan program with only 10% down. All project costs are included(land, building, renovation and soft costs). The loans are long term and provide a low fixed interest rate. The SBA 504 loan program can even finance the machinery you need to buy. Interested? Then keep reading!

Certified Development Companies (CDCs) are regional economic development organizations that are licensed by the U.S. Small Business Administration (SBA). CDCs cover various geographic regions that can range from a single county in a state to a multi-state region. CDCs make loans under the SBA 504 loan program to assist small businesses. The CDC processes, approves, closes and services the loans. Funding is arranged by the CDC assigning its loan to SBA. Even though the funds come from SBA's sale of bonds, the CDC is the direct lender for the program.

Eligibility for SBA 504 Loans

- Organized as a for-profit business. The only not-for-profit companies eligible for SBA 504 loans are sheltered workshops.
- Corporation, partnership, limited liability company or sole proprietor.
- Any type of legitimate business- manufacturing, wholesale, service, professional service or retail.
- Small business - either: net worth under \$7 million and net profits after taxes under \$2.5 million or meet SBA's other size standards (by sales or number of employees depending on NAICS code).
- Use loan proceeds for capital investment (land, building, leasehold improvements, renovation, construction, machinery & associated soft costs). Remember, the SBA 504 loan program is not a working capital program; it reimburses an interim loan.
- Owner-user of the project being financed (51% occupancy if existing building; 60% occupancy if new construction)

What are the Permitted Uses of 504 Loan Proceeds?

- Acquisition of vacant land for construction of a building
- Acquisition of land and building
- Leasehold improvements
- Renovation of building; addition to building
- Construction of a building
- Acquisition of a commercial fishing vessel or party boat
- Acquisition of heavy duty machinery and equipment (such as printing press)
- Associated soft costs: title searches and insurance; attorneys fees; appraisals; environmental reports; architects; permits; surveys; installation of machinery; points on bridge loans, small amount of furniture and fixtures

Deal Structure -- Financing

In consultation with your primary lender and the CDC, the total eligible costs (hard and soft costs) are determined. A bank or other financial institution finances 50% of the cost and takes a first mortgage lien position on the assets financed. The CDC, through the

SBA 504 loan, finances 40% of the project cost and takes a second mortgage position. As little as 10% equity of the total eligible costs is required. The CDC, through the SBA 504 loan, finances 40% of the project cost and takes a second mortgage position. As little as 10% equity of the total eligible costs is required.

Typical Project: Cost

Acquisition of building	\$800,000
Renovations	\$100,000
Machinery	\$50,000
Soft costs	\$50,000
Total	\$1,000,000

Financing

Bank - first mortgage	\$500,000 permanent loan
SBA 504 - second mortgage	\$400,000 permanent loan
Equity	\$100,000
Total	\$1,000,000

Amount of 504 Loan

The CDC can lend up to 40% of the eligible project costs with a dollar cap of \$1.5 million. A CDC can exceed \$1.5 million and go up to \$2million of SBA 504 financing under the following conditions:

- The project will help revitalize a business community with a written revitalization plan
- The project will help your company to expand its exporting
- Your company is 51% or more minority, woman or veteran owned
- You are locating in a rural area
- The project will increase productivity and competitiveness by retooling, modernization or assistance in competing with imports
- Your business was affected by federal budget cutbacks (such as defense downsizing).

CDCs can also lend up to \$4million for eligible manufacturing projects.

To continue reading the article go to <http://www.billgladstone.com/504>.

About the Author

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