

Small Business Administration 504

SUMMARY

The CDC/504 loan program, part of the federal Small Business Administration (SBA), is a long-term financing tool for economic development within a community. The 504 Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. A Certified Development Company (CDC) is a nonprofit corporation set up to contribute to the economic development of its community. CDCs work with the SBA and private-sector lenders to provide financing to small businesses. There are about 270 CDCs nationwide. Each CDC covers a specific geographic area—go to www.sba.gov to find one near you.

ELIGIBLE APPLICANTS

Any for-profit small business with a net worth less than \$7.5 million and profit after tax less than \$2.5 million.

ELIGIBLE USES

Land acquisition, site improvements, acquisition of existing buildings, building renovation, leasehold improvements, new construction, machinery and equipment with a useful life of at least 10 years, and certain soft costs, such as engineering fees, architectural fees, appraisal fees, and environmental fees. Loans may not be used for working capital, debt consolidation, refinancing, venture capital, or investment purposes.

LOAN AMOUNTS

The gross amount of the loan can be up to \$1.5 million for regular loans, \$2 million for Public Policy Goal loans, and \$4 million for small manufacturers, or 40 percent of the total eligible project costs, whichever is less. Additional equity requirements will reduce the SBA participation amount.

TERMS

Ten years for machinery and equipment, 20 years for real estate.

INTEREST RATE

Interest rates on 504 loans are pegged to an increment above the current market rate for five-year and 10-year U.S. Treasury issues. Maturities of 10 and 20 years are available. Fees total approximately 3 percent of the debenture and may be financed with the loan.

LOAN GUARANTEE CONDITIONS

One job to be created or in some cases retained for every \$50,000 of net SBA 504 funds in the project within two years of disbursement. If the project involves a small manufacturer, the criteria is one job for every \$100,000.

