

Certified Development Company (CDC), a 504 Loan Program

FUNCTION: Provides long-term, fixed-rate financing to small businesses to acquire real estate or machinery or equipment for expansion or modernization. Typically a 504 project includes a loan secured from a private-sector lender with a senior lien, a loan secured from a CDC (funded by a 100 percent SBA-guaranteed debenture) with a junior lien covering up to 40 percent of the total cost, and a contribution of at least 10 percent equity from the borrower. The maximum SBA debenture generally is \$5 million (and up to \$5.5 million in some cases).

CUSTOMER: Small businesses requiring brick and mortar financing.

SBA 504 Requirements

SBA 504 Loans: Basic Eligibility Requirements For Profit

Your business must be operated for profit.

Size Standards

Under SBA 504 guidelines, a business is considered to be a small business if it meets both of the following size tests:

- Net Worth of the business is less than \$7,000,000
- Profits After Tax are less than \$2,500,000 (averaged over the last two years)

If your company does not meet these 504 size standards, the company can still be considered a small business if it meets the 7(a) size standards. Please refer to the SBA 7(a) Loan Basic Eligibility Requirements for the 7(a) size standards.

Use of Proceeds

SBA 504 loan proceeds can be used for the following purchases:

- Acquisition of land
 - Land improvements
 - Acquisition of an existing building
 - Leasehold Improvements (improvements must have a useful life of at least 10 years)
- Acquisition of Machinery and Equipment Loan proceeds can also go towards the payment of professional fees directly tied to the loan request (i.e. architectural fees incurred for drawings of a proposed building), and some other administrative costs. However, listed below are *ineligible* project costs.
- Incorporation and organizational expenses
 - Management or counseling fees
 - Finders fees/broker fees
 - Origination and commitment fees
 - Working Capital
 - Intangible Assets (Goodwill, Covenant Not to Compete)
 - Furniture and equipment (with life less than 10 years)
 - Inventory purchases
 - Closing costs

Franchise fees

Business Type

If your business falls within one of the following categories, it is *ineligible* for an SBA loan.

- Non-profit organization
- Financial business primarily engaged in the business of lending
- Passive business owned by developers and landlords
- Academic school with a religious affiliation
- Speculative firm
- Life insurance company
- Business located in a foreign country

- Gambling facility
- Pyramid sales organization
- Recreational facility not open to the general public
- Business engaged in any illegal activity
- Private club or business which limits the number of memberships for reasons other than capacity
- Government-owned entity
- Consumer and marketing cooperative
- Loan packager earning more than one-third of their gross annual revenue from packaging SBA loans
- Business with an associate who is incarcerated, on probation, on parole, or has been indicted for a felony or crime of moral corruption
- Business which presents live performances of an offensive sexual nature; or sells products or services of a sexual nature
- Unless waived by SBA for good cause, business that has previously defaulted on a Federal loan

Business primarily engaged in political or lobbying activities

SBA 504 Loan Terms

An SBA 504 loan has a term of either 10 years or 20 years. The proceeds determine the length of the loan.

- Machinery and equipment purchases or leasehold improvements: 10 years.

Land purchase, construction, and/or purchasing an existing building: 20 years.

SBA 504 Structure

Typically, the SBA 504 loan requires only a 10% injection into the project. Under the 504 program, two loans are issued. One is the loan from the lender, and the SBA issues a separate loan. The structure for the 504 program, as a percentage of total project costs, is typically as follows:

- 50% Lender's loan
- 40% SBA 504 Debenture note

10% Capital injection

(Note: ineligible project costs are considered separate from total project costs. Therefore, your total injection could be more than 10%, as outside costs would have to be covered by you.)

The above structure changes based on the scope of the project. For example, the SBA will require a 15% injection from the borrower (reducing their loan to 35% of total project costs) on single-purpose buildings. A start-up business also requires a 5% increase in the borrower's injection. Therefore, a startup business that will use a single-purpose building such as a gasoline station would require a 20% capital injection.