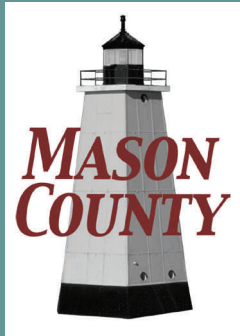


# Low Interest Financing

## SBA 504 Loan Program



## GROWTH ALLIANCE

5300 West U.S. 10  
Ludington, MI 49431  
(231) 845-6646  
(231) 845-6857 Fax  
[www.masoncountygrowth.com](http://www.masoncountygrowth.com)  
[dmiller@masoncountygrowth.com](mailto:dmiller@masoncountygrowth.com)

### SBA 504 Loans

The SBA's 504 Loan Program is a great deal for small and medium-sized businesses. A 504 loan provides access to the same type of long-term, fixed-rate financing enjoyed by larger firms. Interest rates are equivalent to favorable bond market rates.

The program is designed to assist small to medium-sized companies that are considered fiscally healthy. In certain instances, the SBA 504 Loan Program may also be used to finance start-up businesses (i.e. those in operation less than two years). However, such businesses must demonstrate the following:

- Qualified management with industry related work experience,
- Strong marketing plan backed by a thorough market feasibility study,
- Access to an adequate amount of working capital, and
- Minimum 15% equity contribution.

A 504 loan may be used for purchasing such fixed assets as land and improvements; construction of new facilities or renovation of existing facilities; or long-term machinery and equipment with a useful life of at least 10 years. Soft costs, such as legal and architectural fees, environmental studies, appraisals can be rolled into the loan. Ineligible costs include venture capital, refinancing or debt consolidation, working capital or vehicles.

A typical 504 project is financed 50/40/10. Fifty percent of the project costs are financed through a senior private-sector lender or bank. Forty percent of the project costs are provided by an SBA Certified Development Company backed by a 100 percent SBA guaranty. The final 10 percent is an equity contribution from the company being helped.

Benefits of the SBA 504 Loan Program to business:

Low down payment. In most cases, the company is required to inject just 10 percent, which allows the business to preserve cash for working capital.

Fixed rate on the SBA 504 portion. Businesses do not have to worry about the prime lending rate going up and can calculate the exact amount of their payments for 20 years.

Long Term. 504 loans are for 10 to 20 years. Longer terms reduce monthly payments.

Low interest rate. Even with fees and closing costs included in the rate, the 504 program offers a low rate for a subordinate mortgage loan.

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## **PROJECT SPECIFICS**

Preferred projects range from \$250,000 to \$10 million. Generally, the maximum SBA contribution on any single project is \$1.5 million or \$2 million for projects achieving a public policy goal. For manufacturing, the maximum SBA contribution is \$4 million.

## **LOAN TERMS**

Loan terms are offered for 10 or 20 years, depending on the type of assets financed, with the requirement that the useful life of the assets must equal or exceed the loan term. The participating private lender's loan must carry a minimum term of 7 years for projects involving machinery and equipment acquisition only, and 10 years for projects involving real estate financing. The interest rate is fixed and is generally below market rates. The participating private lender's loan may be fixed or variable with a rate that is legal and reasonable. SBA 504 loans are typically secured by a lien on fixed assets acquired with loan proceeds to reasonably assure loan repayment. The lien is subordinate to the private lender's position. In addition, the SBA requires personal guarantee(s) of the principal(s).

## **ELIGIBILITY**

For-profit corporations, partnerships or proprietorships with a net worth of less than \$7 million and an average net profit after tax of less than \$2.5 million. In addition, the small business applicant must be the user of the fixed assets being financed. Borrowers must have an existing cash flow from business operations greater than debt service needed to pay both existing debt and debt resulting from the proposed loan, and sufficient collateral to secure the loan. Passive income and real estate companies, financial institutions, and nonprofit businesses do not qualify.