



## THE SBA 504 LOAN PROGRAM: HIGHLIGHTS AND KEY FACTS

The SBA 504 Loan Program is designed to help small business owners acquire fixed assets - commercial real estate and/or long-life machinery and equipment - without the financial hassles and high cash outlay requirements often associated with conventional financing programs.

### Loan Structure:

- The key to the 504 loan program is its distributed credit structure: a commercial bank provides financing for 50% of the project and takes a first lien position; PADD provides up to 40% of the project financing (SBA portion) and takes a second lien position; and the small business owner provides a down payment of just 10% (depending on age of business and/or if the financed real estate is a special purpose structure, up to 20% equity are required)

### Program Highlights:

- Up to 90% commercial financing at below-market, fixed interest rates
- Low down payment (usually 10%) preserves working capital
- Long amortization terms (up to 20 years on real estate and 10 years on equipment)

### Use of Proceeds:

- Purchase, construction, expansion or renovation of commercial real estate and/or the acquisition and installation of long-life machinery and equipment
- Green initiative projects (use of sustainable design; reduced energy consumption; renewable energy or fuels)
- Purchase of furniture, fixtures and equipment
- Associated fees and soft costs (attorneys fees, architectural, engineering, surveys, etc.)
- Debt refinancing may now be used for refinancing of qualified existing debt without business expansion (temporary program)

### Borrower's Injection:

- 10% in most cases
- 15% for start-up businesses (less than two years in operation) OR special-purpose properties and real estates
- 20% if the project is a start-up AND special-purpose property
- Equipment only loans may qualify with 10% or 15% injections

### A Small Business Window to Wall Street:

Certified Development Companies like PADD fund all loans through the sale of bonds, thus giving the program the economics of scale to access public capital markets. Combined with the Small Business Administration (SBA) guaranty, the 504 Loan Program enables small businesses to access funding at the lowest possible cost.



### Increased Loan Amounts:

PADD can lend up to 40% of the project costs with the following caps:

- \$5 million for standard and public policy projects
- \$5.5 million for manufacturing and green initiative projects

(Limits apply to SBA loan portion only; no limit on overall project size.)

### Alternative Size Standards:

Businesses with a maximum tangible net worth of not more than \$15 million and average net income after Federal income taxes (excluding carry-over losses) for the two full fiscal years prior to application of not more than \$5 million are eligible for 504 financing.

*Start your relationship with PADD. Contact a Loan Officer today.*



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## 504 LOAN PROFILE: MAKING SMALL BUSINESS FINANCING AFFORDABLE

Here is how a 504 loan works: A project typically involves a first mortgage from a commercial lender (usually 50%) and a second mortgage from PADD (usually 40%). The borrowers down payment is usually only 10%, thus conserving working capital to expand the business and create jobs.

### Other 504 Criteria:

#### Principals / Owners:

- Owners must be U.S. Citizens or registered permanent residents with green card
- Owners can not be on probation
- Liquid assets of the principals are taken into account in determining eligibility

#### Collateral:

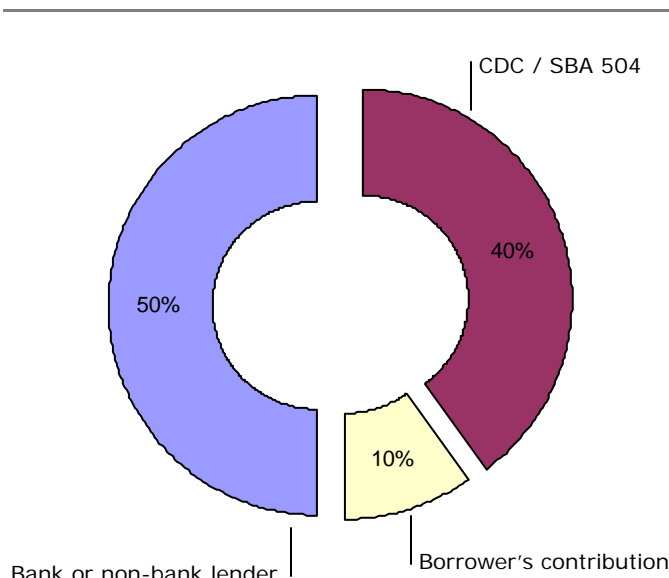
- Generally, the project assets being financed are used as collateral
- Anyone who owns 20% or more if the operating company must provide a personal guaranty.

#### Prepayment:

- There is a prepayment penalty for the first half of the 504 loan term. Contact the PADD for more information.

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### TYPICAL SBA 504 PROJECT LOAN STRUCTURE (\$1,000,000 PROJECT EXAMPLE)



Bank or non-bank lender	50%	\$500,000
CDC / SBA 504	40%	\$400,000
Borrower's contribution	10%	\$100,000

#### Debt Refinancing:

- Established a temporary two-year program of business debt refinancing to be used for refinancing of qualified existing debt without business expansion. This means small business owners holding commercial real estate loans with undesirable rates will now have the opportunity to refinance their loans using the 504 program at very desirable below-market, fixed interest rates

#### Benefits for Borrowers and Lenders

- Finance up to 40% of the project at a long-term, fixed-rate
- Lower equity contribution, as little as 10% of project - helps to preserve working capital
- Decreased risk for banks - makes most deals happen
- Most soft costs may be rolled into the project financing
- 1st lien position for co-financing bank or non-bank lender

#### Sample Projects Financed by SBA 504 Program

- Office buildings (condos)
- Convenience / retail stores
- Franchises and restaurants
- Child / adult / pet daycare
- Hotels / motels
- Veterinaries
- Car wash
- Dentists
- Printing / copying
- Suppliers / wholesalers
- Manufacturers
- Medical clinics
- Movie theaters
- Much, much more ...

#### Note:

New construction projects require an interim loan since SBA loans are disbursed only after completion!



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