

CDC/504 Loans

The CDC/504 loan program is a long-term financing tool for economic development within a community. The 504 Program provides small businesses requiring “brick and mortar” financing with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization. A Certified Development Company (CDC) is a private, nonprofit corporation set up to contribute to the economic development of its community. CDCs work with SBA and private sector lenders to provide financing to small businesses.

Typically, a 504 project includes:

- ◆ A loan secured from a private sector lender with a senior lien covering up to 50% of the project cost
- ◆ A loan secured from a CDC (backed by a 100% SBA-guaranteed debenture with a junior lien covering up to 40% of the total cost)
- ◆ A contribution from the borrower of at least 10% equity

How Funds May Be Used

Proceeds from 504 loans must be used for fixed asset projects, such as:

- ◆ Purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots, and landscaping
- ◆ Construction of new facilities or modernizing, renovating, or converting existing facilities
- ◆ Purchasing long-term machinery and equipment

The 504 Program cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing.

Eligibility

To be eligible for a CDC/504 loan, the business must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, the business qualifies as small if it does not have a tangible net worth in excess of \$7.5 million and does not have an average net income in excess of \$2.5 million after taxes for the preceding two years. Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

Maximum Debenture

The maximum SBA debenture is \$1.5 million when meeting the job creation criteria or a community development goal. Generally, a business must create or retain one job for every \$65,000 provided by the SBA except for small manufacturers, which have a \$100,000 job creation or retention goal (see below). The maximum SBA debenture is \$2.0 million when meeting a public policy goal. These include:

- ◆ Business district revitalization
- ◆ Expansion of exports
- ◆ Expansion of minority business development

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- ◆ Rural development
- ◆ Increasing productivity and competitiveness
- ◆ Restructuring because of federally mandated standards or policies
- ◆ Changes necessitated by federal budget cutbacks
- ◆ Expansion of small business concerns owned and controlled by veterans (especially service-disabled veterans)
- ◆ Expansion of small business concerns owned and controlled by women

The maximum debenture for small manufacturers is \$4.0 million. A small manufacturer is defined as a company that has its primary business classified in sector 31, 32, or 33 of the North American Industrial Classification System (NAICS) and all of its production facilities located in the United States. To qualify for a \$4.0 million 504 loan, the business must meet the definition of a small manufacturer and:

- ◆ Either create or retain at least one job per \$100,000 guaranteed by the SBA [Section 501(d)(1) of the Small Business Investment Act (SBI Act)]
- ◆ Or improve the economy of the locality or achieve one or more public policy goals [sections 501(d)(2) or (3) of the SBI Act]

Interest Rates and Fees

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% of the debenture and may be financed with the loan.

Collateral

Generally, the project assets being financed are used as collateral. Personal guaranties of the principal owners are also required.

For More Information

There are about 270 CDCs nationwide, each covering a specific geographic area. If you are interested in applying for a 504 loan, contact the CDC nearest you. You can get a listing from your local SBA District Office.

Taken from <http://www.sba.gov/financialassistance/borrowers/glp/CDC504lp/index.html>