



SBA 504 Loan Program

Administered by

CAPITAL Certified Development Corporation

**Nikol Munguia-Pavon
Business Development Officer**

Phone: (281) 298-1067

Fax: (281) 292-2267

nikolmunguia@capitalcdc.com

504 Loan Program

(Long-term, fixed asset financing)

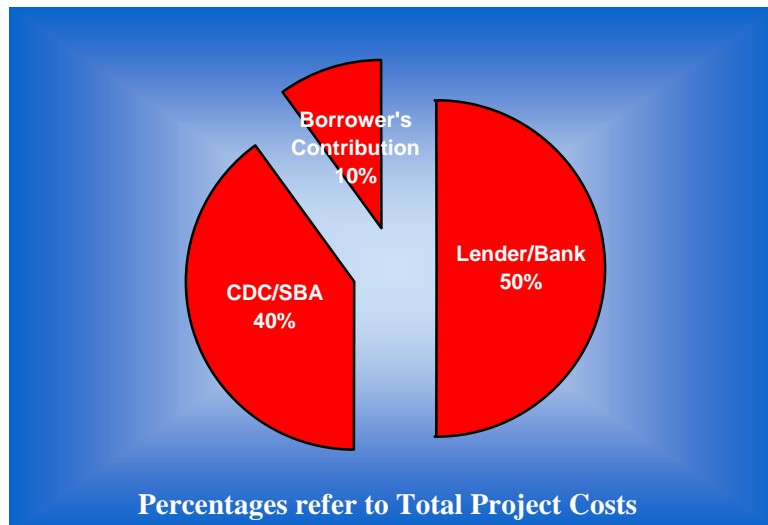
Purpose of the Program

- Create and preserve jobs
- Foster economic development
- Encourage bank lending activity
- Increase productivity of small businesses
- Stimulate local tax base

90% Financing

for healthy, expanding businesses that demonstrate a strong potential of creating job opportunities.

504 Financing Structure



15% contribution if project is a start-up or single-purpose building.
20% contribution if project is a start-up and single-purpose building.
* Start-up: businesses in operation less than 2 years.

20-year Term

SBA portion is fully amortized with a fixed interest rate for life of the loan, no balloon.

ADVANTAGES OF A 504 LOAN

For the Borrower

- Greater access to capital for “underserved” markets
- Low Down Payment, which preserves working capital
- Loan fees and closing costs can be included in the loan amount
- Long-Term Financing (10 years or 20 years)
- Competitive, fixed interest rate on SBA loan portion
- Interest rate on Private Sector portion usually more favorable
- Ordinarily no additional collateral required, other than the assets being financed
- The loan is assumable (New borrower must be SBA eligible)

For the Private Sector Lender

- Private lender portion of the financing is a stand-alone bank loan. No SBA restrictions.
- Can build a stronger loan portfolio. Lender retains 1st Deed Of Trust; SBA takes a junior position
- May participate in projects that would normally exceed lending limit
- Excellent lending alternative for projects that are too large for the SBA 7a Program

LOAN CONDITIONS

- General SBA eligibility requirements must be met
- Use of 504 proceeds limited to fixed assets (purchase of building, property improvements, construction of a new facility, some equipment)
- Prepayment penalty during the first half of the loan term
- Some financial reporting requirements from borrower
- Method of repayment must be by direct electronic payment
- ½ point Participation Fee charged to Lender

MAXIMUM LOAN AMOUNT

There is no restriction placed on the amount of the Bank loan. However, the SBA portion, or debenture, is limited to 40% of the Total Project or \$1.5 million, whichever is less. This amount may be increased to \$2 million if the project meets one of the SBA Public Policy Goals, which include revitalizing economic development districts; expanding exports; promoting businesses owned by veterans, women, and minorities; modernization of manufacturing facilities; and aiding rural development. There is also a \$4 million debenture for manufacturing projects.

MINIMUM LOAN AMOUNT

The SBA debenture may not be less than \$50,000. Therefore, the Total Project Size is, typically, not less than \$125,000.

ELIGIBLE USE OF PROCEEDS

- **Acquisition of Land**
- **Land Improvements**
- **Purchase of one or more existing buildings**
 - Operating Company (OC) must occupy 51%
 - 504 Project funds cannot be used to make tenant improvements
- **Remodel, convert, expand, upgrade, or renovate existing building(s)**
- **Construction of New Building**
 - OC must occupy at least 60%; 80% within 3 years.
 - OC can lease up to 20% of building indefinitely.
- **Acquisition of Machinery & Equipment** (generally with a 10 year useful life)
- **Construction Contingency Reserve**, not to exceed 10% of construction costs
- **Professional Fees** (cost of appraisals, surveys, environmental reports, etc.)
- **Repayment of Interim Points, Fees and Interest**
- **Community Improvements up to 5% of construction costs**

INELIGIBLE USE OF PROCEEDS

- **Working Capital** (including inventory and advertising)
- **Debt Refinancing** (except for eligible interim financing)
- **Goodwill**
- **Tenant Improvements**
- **Counseling Fees**
- **Incorporation or Other Organizational Costs**
- **Commitment Fees, Finance Broker Fees, Origination Fees for Private Sector Financing**
- **Franchise Fees**
- **Equipment or Furnishings that have less than a 10-year useful life, unless...**
 - Items are an integral part of the project (i.e. hotel furnishings, restaurant furnishings, day care equipment, etc.)
 - Items represent a minor portion of the total project cost
- **Automobiles, Trucks, Airplanes**