

## SBA 504 Loan Program

### 504 Certified Development Company (CDC) Program

#### Overview

The 504 Certified Development Company (CDC) Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings.

#### Benefits

The 504 program helps small businesses grow while benefiting small communities through tax base expansion, business growth and job creation. The program offers low down payment, and fixed low interest rate terms.

#### Eligibility

Typically, a 504 project is structured as:

- 50% - bank participation
- 40% - SBA 504 program. The program allows up to \$5,000,000 if the project falls within SBA Public Policy goals or \$5,500,000 if the project is with "Small Manufacturing" guidelines.
- 10% - equity participation

- Generally, a business must create or retain one job for every \$65,000 provided by the SBA.
- To be eligible, the business must be operated for profit, have a tangible net worth less than \$7.5 million and have an average net income less than \$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.
- A Small Manufacturer is defined as a small business concern 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.

#### Rate/Terms

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; or purchasing long-term machinery and equipment.
- The 504 Program cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing.
- Interest rates on 504 loans are pegged to an increment above the current market rate for five-year, 10-year and 20-year U.S. Treasury issues. Fees total approximately three (3) percent of the debenture and may be financed with the loan.
- Generally, the project assets being financed are used as collateral. Personal guaranties of the principal owners are also required.

#### Contact

Youngstown/Warren Regional Chamber at 330.392.6140

*This summary is prepared as a reference, and should not be construed as the actual law. For more information, contact the Youngstown/Warren Regional Chamber.*