

CDC/504 Loan Program Fact Sheet

SBA's CDC/504 Loan Program provides financing for the purchase of fixed assets, which usually means real estate, buildings and machinery, at fixed, low rates.

CDC/504 Basics

What is a CDC?

A Certified Development Company (CDC) is typically a nonprofit corporation set up to contribute to the economic development of its community. These mission-based lenders are located nationwide and operate primarily in their state of incorporation.

What is the CDC/504 Loan Program?

CDCs work with SBA and private-sector lenders to provide financing to small businesses through the CDC/504 Loan Program, which provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings.

What are the typical components of a CDC/504 loan?

A typical 504 loan structure 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 portion of the loan) with a junior lien covering up to 40% of the total cost
- A contribution from the borrower of at least 10% equity

Use of CDC/504 Loan Proceeds

A 504 loan can be used for:

- The purchase of land, including existing buildings
- The purchase of improvements, including grading, street improvements, utilities, parking lots, and landscaping
- The construction of new facilities or modernizing, renovating or converting existing facilities
- The purchase of long-term machinery and equipment
- Leasehold improvements

CDC/504 Loan Program Eligibility

To be considered for a CDC/504 loan, applicants must meet the following eligibility requirements:

- Operate as a for-profit company
- Do business in the United States
- Has a tangible net worth less than \$15 million, and an average net income less than \$5 million after taxes for the preceding two years
- Not engaged in speculation or investment in rental real estate, illegal activities, loan packaging, multi-sales distribution, or gambling
- No available funds from other sources, including from the individual owners or company itself
- Ability to repay the loan on time from the projected operating cash flow of the business
- Good character, defined as the historical willingness and ability to pay debts and abide by laws
- Relevant management expertise
- Feasible business plan supported by realistic assumptions

CDC/504 Loan Amounts, Interest Rates & Fees

Loan Amounts

Maximum loan amounts are determined by how funds will be used based on which of the following goals they support:

1. Job Creation

The maximum 504 portion of the loan is \$5 million for meeting the job creation criteria or community development goal. Generally, the business must create or retain one job for every \$65,000 provided by SBA (\$100,000 for small manufacturing).

2. Public Policy

The maximum 504 portion of the loan is \$5 million if a project meets one of 14 Public Policy or Community Development Goals found in 13 CFR 120.862.

Pro Tip: If the Energy Public Policy goals for energy reduction or upgrades of renewable energy sources are met, the maximum 504 portion of the loan is \$5.5 million.

3. Small Manufacturing

The maximum 504 portion of a loan for small manufacturers is \$5.5 million. A small manufacturer is defined as a company that has its primary business classified in sectors 31, 32, or 33 of the North American Industrial Classification System (NAICS) and all of its production facilities are located in the U.S. To qualify for a \$5.5 million 504 loan, the business must either:

- Create or retain at least one job per \$100,000 guaranteed by the SBA in two years **OR**
- Meet one of the Public Policy or Community Development Goals

Pro Tip: An applicant that meets a Public Policy or Community Development goal can be eligible for a 504 loan, even if it does not meet the job creation or retention requirements.

Collateral

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

Maturity

10 for machinery & equipment; 20 years for real estate.

Interest Rates

Pegged to an increment above the current monthly market rate for 5-year and 10-year U.S. Treasury issues.

Fees

Approximately 3% of the 504 portion of the loan, and may be financed with the loan.