

CDC-504 Loan Program Transcript

Introduction



Ready to learn about the SBA's 7(a) Loan program? Click Begin to start.

What is a CDC?



A Certified Development Company, or CDC, is typically a mission-based, non-profit corporation setup to contribute to the economic development of its community. They're regulated by the SBA, and they work with participating lenders to provide financing to small businesses. There are around 265 CDCs located across the nation, each covering a specific geographic region. You can find your nearest CDC by using the Local Assistance tool on SBA.gov.

What is the CDC/504 Loan Program?

CDCs + SBA + private lenders = CDC/504 Loan Program

which provides businesses with long-term fixed-rate financing for:

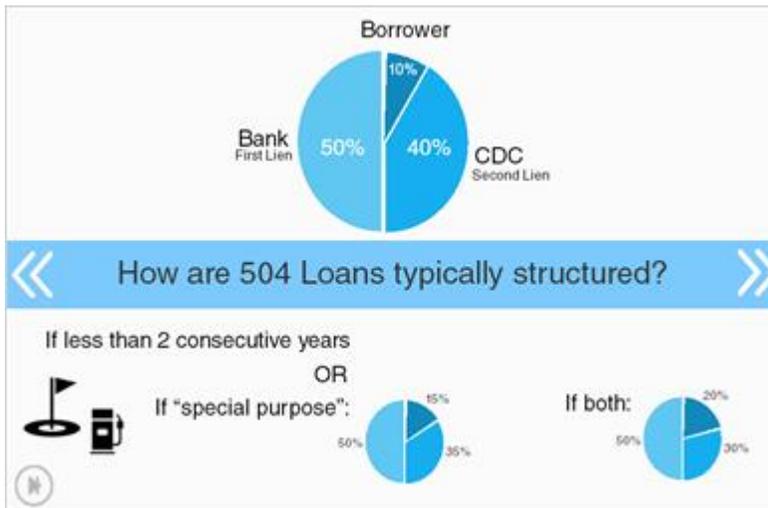
What is the CDC/504 Loan Program?

Real Estate Buildings Machinery

So, what is the CDC/504 Loan Program?

CDCs work with the SBA and private-sector lenders to provide financing to small businesses through the CDC/504 Loan Program. These loans provide growing businesses with long-term, fixed-rate financing for major fixed assets like real estate, buildings and machinery at strongly competitive rates.

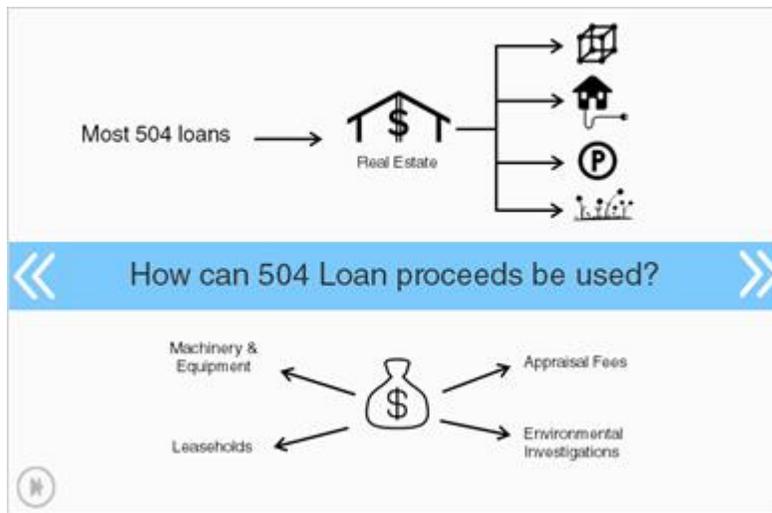
How are 504 Loans typically structured?



There are three parts to any CDC/504 Loan - the borrower, a bank or other regulated lender, and a CDC. In most cases, the borrower must contribute 10% of the total project cost. This contribution can come from equity, or it may be borrowed. Their bank provides 50% at their own rate and term, and the CDC picks up the final 40%. The private bank has a first lien on the assets being financed, while the CDC has a second lien.

There are a few exceptions to this general formula. First, if the borrower's company has less than two consecutive years of sales history, or if the building or assets to be financed are considered "special purpose" (like gas stations or golf courses), the borrower must increase their contribution by 5% to a total of 15%, and the CDC lends 5% less for a total of 35%. If a borrower meets both of these conditions, their borrower's requirement is raised to 20%, and the CDC contribution falls to 30%.

How can 504 Loan proceeds be used?



Most 504 loans are used to finance real estate transactions, including the purchase of land and existing buildings. However, 504 loan proceeds can also be used to fund the construction, modification, or renovation of existing facilities. These modifications might include structural improvements, utilities, parking lots, and landscaping. 504 Loan proceeds can even be used to finance leaseholds and professional fees for appraisals and environmental investigations.

In addition to real estate, many small businesses have used 504 loan proceeds to purchase long-term machinery and equipment.

Who's eligible for a 504 Loan?

In order to qualify, borrowers must be:	Must plan to occupy:
<input type="checkbox"/> Based in the U.S.	 
<input type="checkbox"/> For-profit	Purchased or Renovated Real Estate
<input type="checkbox"/> "Small Business" as defined by SBA	Newly Built Real Estate

Who's eligible for a 504 Loan?

In order to qualify, borrowers must have:
<input type="checkbox"/> Average net income of \$5 million or less after taxes for the 2 preceding years
<input type="checkbox"/> Tangible net worth of \$15 million or less

In order to qualify for the program, the borrower must meet SBA's definition of a U.S.-based, for-profit small business. The company's average net income cannot exceed \$5 million after taxes for the two preceding years, and the business's tangible net worth cannot exceed \$15 million. In addition, the borrower must plan to occupy at least 51% of any commercial real estate that is being purchased or renovated, and at least 60% of any newly built commercial real estate.

What are the terms of a 504 Loan?

Most Businesses:	\$25,000 - \$5,000,000
Job Creation:	Create, or retain, one job for every \$65,000 of the loan
Public Policy:	Business district revitalization, expansion of exports, rural development and expansion of minority business development

What are the terms of a 504 Loan?

Small Manufacturing:	Up to \$5,500,000
NAICS Sectors:	31, 32, 33
	 1 job per \$100k
	 1 public policy goal met
Term:	Varies, up to 20 years

504 Loans can provide from \$25,000, up to \$5.5 million, in financing to small business projects. The actual loan amount for any borrower is determined by how the funds will be used in relation to several SBA community goals. There are three goal categories for which a project can qualify: Job Creation, Public Policy Goals, and Small Manufacturing.

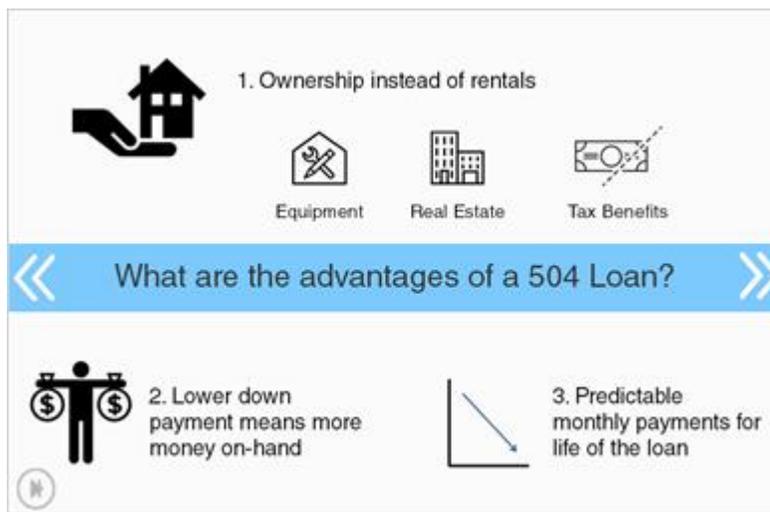
In order to qualify for a CDC/504 Loan by achieving the Job Creation goal, a project must create, or retain, one job for every \$65,000 provided by the loan. Loans that support this goal offer up to \$5 million.

If a project doesn't meet the job creation goal requirement, it can still become eligible for a 504 loan by meeting one or more of 14 SBA-declared Community Development or Public Policy goals. These goals broadly include the revitalization of specific business districts, expansion of exports, rural development, and the expansion of minority owned-businesses. For small businesses that meet these goals, the maximum loan is \$5 million.

Finally, for any small manufacturer, the maximum loan 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, or NAICS, and has all of its production facilities located in the United States. To qualify for a \$5.5 million small manufacturing 504 loan, a business must accomplish one of two SBA goals: It must create or retain at least one job per \$100,000 guaranteed by the SBA, or it has to improve its local economy by achieving at least one of SBA's public policy goals.

The loan terms vary depending on how the loan proceeds will be used. For real estate and buildings, the term is 20 years, while loans for equipment typically qualify for the useful life of the asset, up to 20 years.

What are the advantages of a 504 Loan?



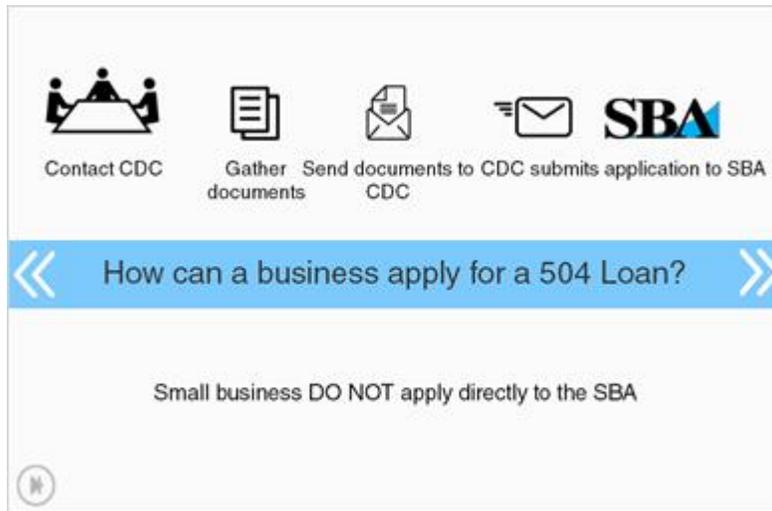
When considering the 504 Loan Program, it's important for small business owners to understand how 504 Loans stand out from other financing options.

First, one of the highest expenses many small business owners face is equipment or commercial real estate rentals. Most small business owners would rather invest in their business' future by owning real estate or equipment, rather than throw money towards leases. In addition, by renting their property or equipment, small businesses might be missing out on tax benefits they'd otherwise receive as owners. The 504 Loan program was built to directly support ownership of real estate and equipment, as opposed to rental.

In addition, most traditional financing options require a 25 to 30% equity injection, whereas in most cases, the 504 program only requires 10 to 20%. This difference provides small businesses with more available money for day-to-day business operations. As an added bonus, the 504 Program allows some banking fees, closing costs, and professional fees to be included in the total cost of the project.

Finally, small businesses love predictability. With the long-term, fixed financing offered by the 504 Loan Program, small business owners will know exactly how much is owed for the life of the loan - and it might also mean lower monthly payments when compared to other adjustable rate financing options.

How can a business apply for a 504 Loan?



Once a small business owner has decided to seek financing for commercial real estate, they'll sit down with their local CDC, which will help them gather the right set of documents for their CDC/504 application. Once these documents are packaged together, the prospective borrower will submit the package to their CDC, who will process and submit the application to SBA on behalf of the small business owner. Small businesses do not apply directly to the SBA.

Additional Resources

More information about the CDC/504 Loan Program:

←←

CDC/504 Loan Fact Sheet

7(a) Loans vs CDC/504 Loans

SBA.gov

If you'd like to learn more about CDC/504 Loans, visit the Real Estate & Equipment Loans CDC/504 page on SBA.gov!