

# GROWTH

## READY GUIDE FOR

# SBA 504

### WHAT IS THE 504 PROGRAM?

Co-Lender financing designed to facilitate the acquisition of capital assets for small businesses.

### WHO CAN QUALIFY?

Most for-profit, owner-occupied small businesses in the U.S. (to include all affiliate businesses) with a net worth less than \$8.5 million and net profit after tax (2 year average) of no more than \$3.0 million; or manufacturers with typically 500 employees or less.

### ELIGIBLE USE OF FUNDS

- Land
- Acquisition of Existing Building
- New Construction
- Fixed Assets from Business Acquisition
- Building Expansion/Renovation
- Long-Term Equipment
- Professional Fees
- Lender's Interim Points & Interest
- Debt Refinance (Expansion Projects – debt refi may not exceed 50% of the new expansion costs)

### INELIGIBLE USE OF FUNDS

- Working Capital
- Inventory
- Goodwill Assets from Business Acquisition
- Franchise Fees
- Tenant Improvements
- Debt Refinance (Except as described above)

### INTEREST RATE AND TERMS

- Fixed-Rate - based on Treasury Rates
- Fully-Amortized over life of loan (No Balloon)
- Real Estate - may be 10 or 20-year term
- Machinery & Equipment - may be 10 or 20-year term (based on useful life)
- Rate "locks-in" when the SBA funds the debenture

### OCCUPANCY

- 51% for existing facilities/buildings (renovations and expansions are eligible)
- 60% for Ground-Up Construction Projects (should occupy 80% within ten years)

### MAXIMUM GROSS DEBENTURE (SBA PORTION)

- \$1,500,000 (Typical Project)
- \$2,000,000 (if Public Policy Goal is met)
- \$4,000,000 (Manufacturers)
- \$4,000,000 (if certain Green Initiative Public Policy Goal is met)
- No Maximum Limit placed on participating lender's loan portion

### PUBLIC POLICY GOALS

- Aiding Rural Development
- Women, Minority, or Veteran Owned (ownership of 51% or more)
- Revitalizing Economic Development Areas
- Enhancing Economic Competitiveness
- Expanding Exports
- Areas impacted by Federal Budget Cutbacks
- Meeting Federal Safety & Environmental Policies
- LEED Certified Projects (Green Initiative)
- Projects that reduce energy consumption by at least 10 percent (Green Initiative – eligible for \$4,000,000 debenture)
- Projects that generate renewable energy or fuels, such as biofuels (Green Initiative - eligible for \$4,000,000 debenture)

### BORROWER'S INJECTION

- 10% in most cases
- 15% for Start-Up Businesses (less than two years in operation) or Special-Purpose Properties
- 20% if the project is both a Start-Up and Special -Purpose Property
- Equipment-Only loans may qualify with 10% or 15% injections

### JOB CREATION/RETENTION

- One job for every \$65,000 of the debenture (for most projects)
- One job for every \$75,000 of the debenture (for Enterprise Zones & Labor Surplus Areas)
- One job for every \$100,000 of the debenture (for manufacturers)
- Projects are excluded from the job requirement if a Public Policy Goal is fulfilled

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**BENEFITS FOR LENDERS**

- 1st lien position and low Loan-to-Value strengthens private lender's loan portfolio
- Low injection requirement preserves borrower's working capital
- Fixed interest rate helps lenders compete for more business
- Offers creative financing to differentiate your bank in the market place
- Secondary market provides additional income opportunities
- CRA Credits on SBA portion of loan
- Most soft costs may be rolled into the project financing

**BENEFITS FOR BORROWERS**

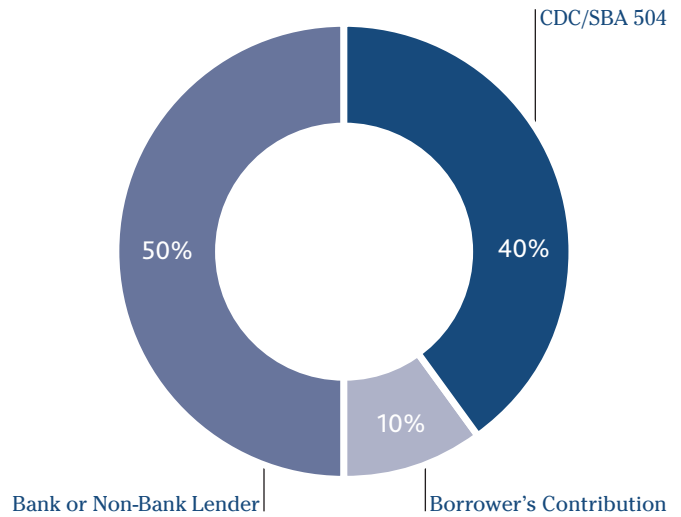
- Finance up to 40% of the project at a long-term, fixed-rate
- Lower equity contribution, as little as 10% of project - helps preserve working capital
- Decreased risk for lenders - makes most deals happen
- Most soft costs may be rolled into the project financing
- For Expansion Projects – provides debt refinancing opportunity

**SAMPLE PROJECTS FINANCED BY 504**

- Office Buildings (Condos)
- Convenience Stores & Retail
- Franchises & Restaurants
- Child/Adult/Pet Daycare
- Hotels/Motels
- Veterinaries
- Car Wash
- Dentists
- Printing/Copying
- Suppliers/Wholesalers
- Manufacturers
- Medical Clinics
- Movie Theaters
- Much, Much More...

**Typical SBA 504 Project Loan Structure**

**(\$1,000,000 PROJECT EXAMPLE)**



Bank or Non-Bank Lender	50%	\$500,000
CDC/SBA 504	40%	\$400,000
Borrower's Contribution	10%	\$100,000



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PLEASE CONTACT YOUR LOAN OFFICE FOR ASSISTANCE