

SBA 504 Loan Program Explained

Are you looking to expand or modernize your small business? If you're exploring your financing options, then SBA's 504 Loan Program may be for you. The 504 Loan Program is 2 loans: a 1st loan with the Lender (typically a Bank) and 2nd loan with a Certified Development Company (CDC) lender. Designed especially to help small businesses grow, you can use funds to make purchases for real estate and equipment, just to name a few. Read on for more details to see if this is a good option for you.

Am I eligible?

In addition to operating your business for profit, you'll need to have a feasible business plan and relevant management expertise to be considered eligible for a 504 loan. As with any business seeking SBA's financial assistance, you're also required to do business in the United States or its territories. And you must have tried to use other financial resources, including personal assets, before applying for a loan. Here are some other requirements to consider:

- Your business must have a tangible net worth of less than 15 million dollars.
- Your business must have an average net income less than \$5 million after taxes for the preceding two years.
- You must have the ability to repay the loan on time from the projected operating cash flow of your business.

How can I use the funds?

504 loan funds can be used to:

- Purchase land;
- Purchase existing buildings;
- Purchase long-term machinery and equipment;
- Purchase improvements (including grading, street improvements, utilities, parking lots and landscaping); or
- Build new facilities or modernize, renovate or convert existing facilities.

504 loan funds cannot be used for:

- Working capital or inventory;
- Consolidating, repaying or refinancing debt (although for a portion of the project, you may refinance debt associated with buying or renovating equipment or facilities); or
- Speculation or investment in rental real estate.

What are the amounts and repayment terms?

Maximum loan amounts are determined by how they'll be used – if they support goals associated with job creation, public policy or small manufacturing. The loan terms also vary. For land and buildings, the loan term is 20 years; it's a 10-year term for machinery and equipment.

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