Changes Boost SBA's Long-Term, Fixed-Asset Loans for Borrowers

If your small business is interested in expanding and purchasing a building or equipment, the U.S. Small Business Administration has good news for you. Recent changes to the 504 Certified Development Company loan program, may help you refinance existing loans into this unique government-guaranteed program. Refinancing can help you benefit from increased cash flow and enhanced viability to support growth and job creation. The changes were authorized in the American Recovery and Reinvestment Act of 2009.

SBA's 504 loan program is designed to help small businesses purchase land and buildings, heavy equipment or machinery, and expand current development projects. Working capital is not an eligible use of the proceeds. Loans generally have 10- or 20-year terms.

Additionally, certain CDC fees have been temporarily eliminated, making the 504 loans more affordable for small businesses. On a typical 504 loan of $1,500,000, this means borrowers can save $12,750; on a $3,750,000 loan, borrowers can save $31,875.

This program is administered through 271 certified development companies across the nation.

Most types of for-profit small businesses qualify for the program. Typically 50 percent of the loan is provided by a bank; 40 percent is provided by the certified development company, with an SBA guarantee; and 10 percent is put up by the borrowers. The program was designed as an economic development program that supports American small business growth and helps communities through business expansion and job creation.

New Feature

Legislation allows 504 projects to include a limited amount of debt refinancing if there is a business expansion and the debt refinanced does not exceed 50 percent of the projected cost of the expansion. "Expansion" includes any project that involves the acquisition, construction or improvement of land, building or equipment for use by the small business. The following are some of the conditions under which borrowers will be eligible for refinancing:

- The debt being refinanced was incurred to acquire land, to construct a building or to purchase equipment. The assets acquired must be eligible for financing under the 504 program.
- The existing debt is collateralized by fixed assets.
- The existing debt was incurred for the benefit of the small business.
- The new financing provides a substantial benefit to the borrower when prepayment penalties, financing fees, and other financing costs are taken into account.
- The borrower has been current on all payments of existing debt for one year prior to the date of refinancing.

Under the program, a 504 loan is required to create or retain a minimum number of jobs within two years of the loan disbursement as a result of the project or to meet other defined economic development objectives.

Currently, one job must be created or retained for each $65,000 in funds guaranteed by the SBA. (The previous goal was one job for each $50,000 in guaranteed funds.) For a manufacturing project, it is one job per $100,000 of 504 loan funding. For projects in Alaska, Hawaii, state-designated enterprise zones, empowerment zones and enterprise communities, labor surplus areas, as determined by the Secretary of Labor, and for other areas designated by SBA, the CDC's portfolio may average not more than $75,000 per job created or retained.

The CDC must verify its 504 loan portfolio meets job creation or retention requirements.

Characteristics of a typical Certified Development Company (504) loan:

- A bank or other private lender provides 50 percent of the project cost.
- The CDC (with SBA's help) finances up to 40 percent of the project.
- The borrower provides the remaining 10 percent.
- If the business is new or if the project involves construction of a limited- or single-purpose building, the borrower is required to cover 15 percent of the project
- If the business is new and the project involves a limited- or single-purpose building, the borrower must provide 20 percent.
- The long-term and relatively low interest rate loan provides a low borrower monthly loan payment, which allows the business to conserve operating capital.
- The CDC loan is funded by a 100 percent guaranteed debenture sold to investors. The maximum debenture is $1.5 million for businesses that create a certain number of jobs or improve the local economy.
- The debenture increases to $2 million for projects meeting certain public policy goals, and to $4 million for small manufacturers.

Examples of public policy goals include:

Business-district revitalization; Expansion of exports; Expansion of minority enterprise development; Rural development; Increased productivity and economic competition; Restructuring because of federally mandated standards or policies; Changes necessitated by federal budget cutbacks; Expansion of small business concerns owned and controlled by veterans, especially service-disabled veterans; and Expansion of small business concerns owned and controlled by women.

For more information on the 504 loan program and eligibility requirements, go to **www.sba.gov/recovery**.

As ***Your Small Business Resource***, the SBA can connect you with a network of services to fit your needs, including counseling and training, information on government contracting, and exporting opportunities.

All SBA programs and services are provided on a nondiscriminatory basis.