



SBA Certified Development Company/504 Loan Program

The Small Business Administration (SBA) helps small businesses and entrepreneurs obtain loans, build skills, and gain access to government contracts. The SBA works with banks to provide loans to small businesses that might not otherwise be able to obtain financing.

This fact sheet highlights the SBA's Certified Development Company/504 Loan Program (504 loan program). This program and the 7(a) Loan Program are two of the SBA's flagship efforts to expand access to capital. Together, they encourage banks and other lenders to help small businesses and entrepreneurs start and grow their businesses.

What Is the 504 Loan Program?

This program is a financing tool for small businesses that promotes economic development. The program accomplishes this by providing small businesses with long-term, fixed-rate financing for the acquisition of major fixed assets for expansion and modernization.

Under the program, a lender partners with a certified development company (CDC), a specialized SBA-certified nonprofit corporation, to finance small businesses looking to expand. Each partner makes a loan to a qualifying small business. Typically, the lender's loan is secured by a first lien covering 50 percent of a project's cost. The CDC's loan is secured by a second lien for up to 40 percent of the project's cost and is also backed by a 100 percent SBA-guaranteed debenture.

The SBA does not set a limit on a project's size or a total loan amount that a bank and CDC can jointly finance under this program. The SBA, however, does limit a CDC's financing participation to 40 percent of the total project cost, or a maximum of \$5 million for most businesses and \$5.5 million for manufacturers. The borrower contributes equity of at least 10 percent of the project's cost.

What Is a Certified Development Company?

A CDC is a nonprofit organization certified by the SBA to provide 504 loans to small businesses. Most have a 501(c)(4) or 501(c)(6) nonprofit designation from the Internal Revenue Service; some have a 501(c)(3) designation.

Nationwide, there are about 270 of these organizations. Some make only 504 loans; others offer a range of programs to help small businesses. A CDC receives certification to operate statewide and, with approval from the SBA, could be given certification to serve multiple, contiguous states. A CDC operates under the leadership of a board of directors, who are drawn from the service area.

For additional information, contact your local SBA District. [Locate a CDC in your area.](#)

How Can Banks Participate?

Participating lenders include banks, savings and loans, and credit unions. Lenders interested in participating should contact their local SBA District Office. All lenders must meet SBA program requirements. Lenders are required to execute a third-party lender certification as part of the loan closings.

Both the bank and the CDC will underwrite the loan. The bank may contact the CDC during the underwriting period to discuss any concerns. While the terms and conditions on the bank and CDC loans may differ, they are coordinated by the bank and CDC to meet the needs of the borrower. The SBA does not provide a loan guarantee for the bank-funded portion of the financing.

What Businesses and Uses Are Eligible?

This program is for businesses and eligible loan requests that are not bankable without SBA participation. Real estate financed by a 504 loan must be at least 51 percent owner-occupied for existing buildings, and 60 percent for new construction. Eligible businesses include hotels and motels, nursing homes, gas stations, and restaurants.

The loans must be used for fixed assets, such as the purchase of lands and buildings, site and building improvements, newly constructed facilities, and long-term machinery and equipment.

Loans cannot be used for working capital or inventory. Existing debt may be refinanced under the permanent 504 refinancing program as explained in a following section.

To be eligible, a business must operate as a for-profit entity and meet SBA size requirements. A business qualifies if its net worth is less than \$15 million and it has an average net income for the last two years of less than \$5 million. Loans cannot be made to a business engaged in real estate speculation or rental investments.

Additional restrictions may apply. Generally, a business must create or retain one job for every \$65,000 guaranteed by the SBA debenture; although it is \$100,000 for small manufacturers.

What Are the Benefits for Banks?

The program helps banks to add customers by serving commercial borrowers who may not meet conventional underwriting criteria. The program allows loans for fixed asset financing for up to 90 percent of a project's cost, reducing down-payment requirements. A bank's first mortgage is 50 percent loan-to-value (LTV), minimizing collateral risk. Also, 504 loans used for owner-occupied real estate are not counted in commercial real estate concentrations.

The lenders' first lien loans are salable on the secondary market, providing lenders greater liquidity. Finally, by making CDC/504 loans, banks may qualify for Community Reinvestment Act consideration.

Under What Circumstances Can Existing Loans Be Refinanced?

The American Recovery and Reinvestment Act of 2009 provided a permanent authority for partial debt refinancing under the 504 program.

Any eligible small business planning an expansion may refinance existing, eligible debt—as long as the amount being refinanced is one-third or less of the project's total cost. Expansion includes acquisition, construction, or improvement of land, building, or equipment for use by the small business.

Eligible debt includes debt that was used to finance fixed assets such as land, building, building expansions, or equipment. The debt being refinanced must be related to the expansion with fixed assets as collateral.

The new financing must provide a substantial benefit to the business after taking into account prepayment penalties, financing fees, and other

financing costs. The terms and interest rate must be better than those of the existing indebtedness. Finally, as with the standard 504 loan, the refinance must create or retain a job for every \$65,000 guaranteed in the debenture by the SBA (or \$100,000 per job for small manufacturers).

For More Information

- [SBA CDC/504 Loan Program](#)
- [SBA Standard Operating Procedures](#)
- [SBA 7\(a\) Loan Program](#)
- The OCC's *Community Developments Insights* on the [504 Loan Program](#)
- OCC's [Small Business Resource Directory](#)
- OCC's [District Community Affairs Officers contact information](#)