

The SBA 504 Loan – Option #1 for Small Business Expansion Financing

The SBA 504 Loan Program provides an eligible small business with long-term, fixed asset financing for their expansion project. With the participation of a bank or other lending partner it can provide up to 90% financing of the total project costs.

Why the 504 Loan Should Help Finance Your Next Expansion Project!

Feature	Benefit
1. Fixed Interest Rate	Fixed interest rate provides stable future occupancy costs.
2. Longer Term	Monthly debt service is reduced increasing profits to the business and keeps monthly debt service affordable and constant regardless of fluctuations in the economy.
3. Lower Down Payment	A 10% down payment for existing businesses preserves working capital for business use.
4. Lower Interest Rate	Usually lower than the current market rate, 504 interest rates decrease immediate occupancy costs saving the business more money.
5. Second Lien Position	With the 504 loan in second lien position, lending partners have more incentive to approve projects they wouldn't normally approve and to offer better terms on their portion of the project.

What Can Be Financed With The 504 Loan?

- Purchase existing land & building
- Building improvements and new construction
- Equipment purchase
- Interest on construction financing
- Certain soft costs

Who Can Use The 504 Loan?

Most small businesses qualify if they are operated for profit and fall within the size standards set by the SBA. Under the 504 Program, the business qualifies as small if it does not have a tangible net worth in excess of \$8.5 million and does not have an average net income in excess of \$3.0 million after taxes for the preceding two years. Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

Example of the financing structure for a typical 504 loan project for an existing business, constructing a new building, with a total project cost of \$1,000,000.

Typical 504 Loan Structure 50/40/10

Source	Amount	Terms
SBA 40%	400,000	Fixed interest rate 20 year term 20 year amortization
Lender 50%	500,000	2 nd lien position allows bank to offer more favorable terms i.e. 10 year bank term required with 20 year SBA term, 7 year bank term required with 10 year SBA term
Borrower** 10%	100,000	Lower down payment keeps working capital in the small business

Typical Conventional Loan Structure 80/20 (can be up to 30%)

Bank 80%	800,000	Variable rate, 5 year term
Borrower 20% - 30%	200,000– 240,000	

**Note: New businesses, defined as businesses less than 2 years old, and special purpose buildings as defined by the SBA require additional equity contribution by the borrower.