

SBA 504 Program

SKED is a U.S. Small Business Administration (SBA) Certified Development Company (CDC) partnering with the SBA to provide small business financing throughout the state of Kentucky.

Small business owners thinking of purchasing or renovating commercial real estate or purchasing equipment to grow their business should consider the SBA's 504 Loan Program. The 504 loan provides small businesses access to the same type of low cost, long-term, fixed-rate financing enjoyed by larger firms.

What can the SBA 504 loan program be used for?

- Purchase of land and buildings
- Construction of new facilities
- Purchase of machinery and equipment with a useful life of at least 10 years
- Renovations or additions to an existing building
- Soft costs like architectural and legal fees, environmental studies, appraisals, and interest and fees on the construction and/or interim bank financing can also be included the loan.

Project Examples:

- Professional Offices (Doctor, Dentist, Chiropractor)
- Manufacturing Businesses
- Convenience Stores/Gasoline Stations
- Hotels/Motels
- Car Washes
- Restaurants

SBA 504 loans cannot be used for:

- Working Capital
- Refinancing existing loans or debt consolidation
- Rolling stock such as cars, trucks, and buses

What is the maximum SBA loan amount?

- \$1.5 million for regular 504 loans - not to exceed 40% of the total project cost
- \$2.0 million for Public policy projects (see below)
- \$4.0 million for manufacturing
- For a special purpose facility such as a restaurant, gas station or for a startup business less than 2 years old, the maximum 504 loan participation is 35% of the total project cost.

Job creation requirements

- Regular 504 – 1 job per \$65,000 invested
- Manufacturing – 1 job per \$100,000 invested
- Job creation is waived if one of the following SBA Public Policy goals is met:
 1. Expansion of an export business
 2. Expansion of a minority-owned business (51 % minority interest)
 3. Woman-owned
 4. Veteran-owned
 5. Rural or Community Development project

How is the SBA loan structured?

A typical 504 project is structured with 50% of the project costs provided through a private-sector bank, 40% of the project costs are fixed with a fixed-rate 504 loan and the final 10% of the project cost is provided by the purchaser. Project example for a \$1.0 million real estate purchase:

<u>Loan Amount</u>	<u>Bank</u> \$500,000	<u>504 Loan</u> \$400,000	<u>Business</u> \$100,000
<u>% of Project</u>	50%	40%	10%
<u>Term</u>	15-years	20-years	Equity
<u>Interest Rate</u>	Market Rate	Fixed Below Market	
<u>Collateral</u>	1 st Mortgage	2 nd Mortgage	

What are the eligibility issues of the SBA 504 program?

Most for-profit businesses that meet the following small business size standards:

- A tangible net worth of less than \$8 million, and
- Average net profits, after taxes, of less than \$3.0 million for the past two years, and
- U.S. residents must own 51% of the business.

What are the SBA closing costs?

SBA fees are reasonable and are typically financed within the loan. Please contact us for specifics related to your project.

What about the SBA paperwork?

SKED's staff of highly trained professionals will assist you throughout the application process minimizing the paperwork burden on the small business owner. Once a completed 504 loan application is submitted to SBA, a loan decision can be expected within two weeks.

Consider the advantages of a 504 loan

- Low Down Payment – Borrow up to 90% of your financing needs. In most cases, the business is required to inject only 10% of the total project cost. Ordinarily, banks require 20% to 30% down without 504 loan participation.
- Low, Fixed Interest Rate – The low interest rate is fixed for the life of your SBA loan. No need to worry about the interest rate going up.
- Long Term – 504 loans are for 10 or 20 years.

For additional questions and/or clarification regarding the SBA 504 program, please contact us directly:

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