

# ADVANTAGES OF THE SBA 504 LOAN PROGRAM

## FACT SHEET FOR LENDERS

An SBA 504 loan can finance real estate or heavy equipment in a partnership financing package between a bank lender and **Oregon Business Development Corporation**, an SBA Certified Development Company (CDC). Typically, the bank lender finances 50% of the project cost and the CDC finances 40%. Oregon Business Development Corporation, established in 1983 and headquartered in Redmond, offers SBA 504 loans throughout the state. Call us today – we're here to help make SBA 504 packaging easier for you and your borrowers.

### ADVANTAGES OF 504

- Low down payment is only 10% for an existing business (15%-20% is required for new businesses or special-use properties) – in some cases the down payment can be financed from other sources
- Low down payment lets the borrower keep more cash for working capital
- Fixed interest rate that is usually below-market on the CDC portion of the loan
- All project costs can be financed, including soft costs such as appraisal, loan fees, and closing costs
- Collateral is typically the asset financed, leaving other assets free of liens for other needed financing
- Long term, fully-amortizing 20-year real estate loan (equipment-only loans are usually 10 years)
- Using the 504 program enables the lead lender to make loans in a first lien position on reasonable terms, helps retain growing customers, and provides CRA credit

### USE OF FUNDS

- Purchase of land and construction of a new building
- Acquisition of an existing building or renovations/additions for an existing building
- Acquisition of heavy machinery or equipment (such as a printing press or assembly line equipment)
- On real estate projects, equipment may be included (also office furnishings, telephone systems, etc)
- Buildings on leased land are eligible

### TYPICAL STRUCTURE

• Purchase land	\$400,000	Bank 1 <sup>st</sup> mortgage	\$1,000,000	50%
• New construction	1,500,000	SBA 504 2 <sup>nd</sup> mortgage	800,000	40%
• Soft costs	<u>100,000</u>	Borrower cash	<u>200,000</u>	<u>10%</u>
• Total project	<u>\$2,000,000</u>	Total financing	<u>\$2,000,000</u>	<u>100%</u>

### FEATURES

- Maximum 504 2<sup>nd</sup> mortgage is \$1.5 million for standard projects, but can be up to \$4.0 million for manufacturers; total project size can be from \$250,000 to \$16.0 million (call for details)
- Debt refinance is usually ineligible (call for exceptions); working capital is not an eligible project cost
- Existing buildings must be 51% owner-occupied; new construction must be 60% owner-occupied
- The project must create or retain jobs, or must meet one of several SBA exceptions (call for details)
- Almost any type of small business is eligible: retail, wholesale, service, manufacturing, hospitality

### WHAT TO LOOK FOR

- Growing businesses/start-ups with strong management that need to preserve working capital
- Marginal historical debt coverage may be acceptable with positive trends and a solid growth plan
- Collateral weaknesses can be alleviated using the SBA 504 program

**Oregon**  
BUSINESS  
DEVELOPMENT  
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*SBA 504 Real Estate Loans*

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