

SBA 504 Loans

What is a 504 loan?

- Financing for owner-occupied purchase or new construction of commercial real estate.
- Features low down payment (as little as 10%) and long term fixed rate financing.
- Partnership loan between a lender and an SBA Certified Development Company (CDC).

Why should I be interested in the 504 program?

- Low down payment increases the pool of potential buyers for a given property.
- Using a 504 loan reduces the borrower's down payment to as low as 10% of project cost. This is a true 10% of project costs, with virtually no other out-of-pocket expense.
- The CDC second mortgage has a 20-year term and the rate is fixed for the full 20 years.
- The first mortgage may be on better-than-average terms, since loan-to-value is about 50%. Some first mortgages can be amortized for as long as 30 years.

Who is eligible for an SBA 504 loan?

- Almost any type of business is eligible: retail, wholesale, service, manufacturing, hospitality.
- The project must create or retain jobs or meet one of several SBA exceptions (call us).
- Debt refinance is usually not eligible (call us); working capital is not eligible.

What is the owner-occupied rule?

- For the purchase of an existing building, the business must occupy at least 51%. For new construction, the business has to occupy at least 60%.

How do I or my client get started?

- The borrower or broker should contact us and the bank lender. Any bank or other lender can do a 504 financing package, and we work with all of them.
- It is best to have the borrower or lender call us as early as possible. We can establish eligibility, and work with the other lender towards obtaining simultaneous approvals.
- We require the same information as most lenders and we will make copies of all application materials for the other lender to make the process easy for the business owner.

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Common questions about SBA 504 Loans

What are project limitations and loan structures?

- The basic total project maximum is \$6-\$8 million, depending upon the first mortgage lender. Project cost minimum is usually about \$250,000.
- Projects that meet certain criteria (rural, minority, etc.) can be as high as \$8-\$10 million.
- The project limit for manufacturers can be as high as \$16 million or more.
- Loan amounts are based on cost, not appraised value.
- Existing buildings must be 51% owner-occupied; new construction must be 60%.
- Low down payment is only 10% for existing businesses (15% - 20% is required for new businesses or special-use properties, such as motels). In some cases the down payment can be financed from other sources.
- Maximum 504 2nd mortgage is \$1.5 million for standard projects, \$2.0 million in certain situations (rural, minority, etc.), and can be up to \$4.0 million for manufacturers.
- Total project costs may include building purchase or new construction, new equipment, furnishings, and all project soft costs (including construction contingency, construction interest, architecture, appraisal, environmental, loan fees).
- Overall loan-to-value can exceed 90%. Including equipment and furnishings and having no set loan-to-value targets are major advantages.

Typical Loan Structure:

• Purchase land	\$400,000	Bank 1 st mortgage	\$1,000,000	50%
• New construction	1,500,000	SBA 504 2 nd 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>

Points to remember:

- Almost all businesses are eligible as long as they are considered a “small” business. The basic 504 standards are less than \$8.5 million net worth and less than \$3.0 million after-tax net profit averaged over the past two years.
- The project property must be “owner-occupied” (see 51% and 60% rules above).
- Low down payment – for both buyers who need it and for those who want it.
- The rate is fixed for 20 years on the SBA 504 portion and competitive on the bank portion.
- The program is easy to use and can be used by any bank (even if the bank doesn’t normally do SBA guaranteed loans).
- Low down payment increases the pool of potential buyers for a property.

Why use Oregon Business Development?

- We’re experienced – our three loan officers have over 50 years combined SBA experience.
- We’re fast – we do our own underwriting, our Loan Committee and Board can approve loans with very short notice, and we assist both the bank lender and borrower all the way through closing.
- Our goal is to get the project financed on terms that help the borrower and the bank.