



# Small Business Administration (SBA) 504 Program

## Business Finance: Your Lending Partner

### Eligible Applicants

Eligible applicants for the SBA 504 program include for-profit small businesses with a net worth less than \$15 million and \$5 million in profit after taxes.

### Eligible Use

Uses for the SBA 504 loan can vary but typically encompass acquisition of land and existing buildings, site improvements, building renovations, leasehold improvements, new construction, machinery & equipment with a useful life of at least 10 years. Refinancing of existing commercial real estate and/or equipment debt may be eligible. Loans may not be used for working capital, venture capital or investment purposes.

### Loan Amount

The gross amount of the loan can be up to \$5 million for regular loans and \$5.5 million for Public Policy Goal loans as well as small manufacturers or 40% of the total eligible project costs (whichever is less). Additional equity requirements will reduce the SBA participation amount.

### Interest Rate

Interest rates are based on the sale of U.S. Treasury Bonds. The rate changes every month until the loan is dispersed. Once the loan has been dispersed, it then becomes fixed for the life of the loan.

### Term

- 10 years for machinery & equipment
- 20 years for real estate

### Equity Requirement

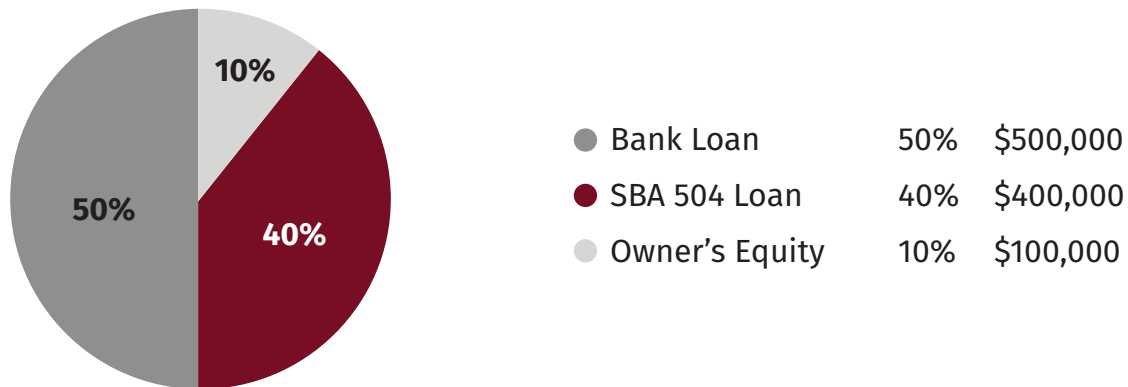
Existing businesses (must be in operation for 2+ years) must provide a minimum of 10% of the total project cost. New businesses or new ownership of businesses must provide a minimum of 15% of the total project cost. If the project involved special use assets, an additional 5% will be required. Equity in project real estate may, in some cases, be used.



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# Typical SBA 504 project loan structure: (\$1,000,000 project example)



## Advantages for Borrowers

- Finance up to 40% of the project at a long-term fixed rate
- Lower down-payment, as little as 10% of project, helps preserve working capital
- Decreased risk for banks - makes most deals happen
- Long term and amortization with no balloon payment
- Lower cost compared to 7 (a) guaranteed loan

## Advantages for Banks

- Finance larger projects by spreading risk with lower loan to value ratio
- Finance in specialized markets and/or specialized equipment
- Gives your small business client access to capital markets without the high expense of bond council
- Blended fixed/variable rate with re-pricing capability
- A large portion of the project is financed at a fixed rate
- Offers creative financing to differentiate your bank in the market place
- Hedge you client's exposure to rate increases as prime changes
- Gives your client a cushion in the credit limit and allows you to keep those cultivated relationships without affecting your legal lending authority
- The long term fixed rate leaves mores money available in your customer's cash flow to pay your debt service
- CRA credits on SBA portion
- Market for the purchase of the first lien mortgage
- No reporting compared to 7 (a) lending

## Industries financed with SBA 504 program:

- Manufacturing
- Medical
- Commercial
- Agricultural