SBA 504 Loan Program

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SBA 504 Loan Program

• It’s an Economic Development Financing Tool – Creates Jobs using public/private partnership

• An SBA 504 Project involves fixed asset financing to for-profit businesses

• An SBA 504 Project has three main partners – Bank, SBA/CDC and Borrower

• Technical Assistance available to Small Businesses - 504 Loans are Packaged and Administered by Certified Development Companies (CDC)
SBA Goals

- Create economic development opportunity in a community
- Provide long term financing for business expansion
- Provide a financial incentive to encourage private lender participation
- Provide a financial incentive to stimulate business capital investment
- Provide access to public capital markets for small business
Basic Eligibility

- Must be a For-Profit Operating Company
- Must be located in the United States
- Owner must be a U.S. Citizen or Legal Resident
- Owner must be of Good Character
- Operating Company must demonstrate Repayment Ability
- Owner’s Company must use the Project Property
- Company Net Worth of $15 Million or Less
- The Project must meet an Economic Development Objective of the SBA 504 Loan Program – Job Creation/Retention; 1 job/$65,000 except manufacturing 1 job/$100,00
SBA Loan Programs

• 504 – used only for long term fixed assets
• SBA terms: 20 yr. land and building; 10 yr. equipment

• Eligible Long Term Fixed Assets Include:
  – Building Purchase
  – Land
  – Building Construction
  – Renovation
  – Equipment
Eligible Use of Proceeds

• Purchase of Existing Buildings – requires minimum 51% occupancy
• Construction of New Building – requires at least 60% occupancy with plans to occupy 80% within 10 years
• Remodel, expand or renovate Existing Building
• Purchase of Capital Equipment – equipment with 10 year useful life
• Debt Refinance – if it meets SBA requirements
Typical 504 Loan Structure

- Bank funds 50% of Total Project secured with a 1\textsuperscript{st} Deed of Trust
- SBA through a CDC funds 40% of Total Project secured with a 2\textsuperscript{nd} Deed of Trust
- Borrower injects 10% of Total Project
- Special Purpose properties require 15% injection, Special Purpose properties plus
- Start-up businesses require 20% injection
SBA 504 Structure Example

Total Project Cost (Purchase Price)  $1,000,000

Typical SBA 504 Loan Structure

50% Bank  $500,000

40% SBA 504 Loan  $400,000

10% Borrower Down Payment  $100,000

Total Sources of Funds  $1,000,000
SBA 504 Loan Amounts

• $5 Million SBA loan for a standard project of $12.5 Million or more Total Project Cost

• $5.5 Million SBA loan for project involving a Small Manufacturer or Eligible Energy Project of $13.75 Million or more Total Project Cost
Advantages of 504 Loan

- Offers up to 90% financing
- Below market fixed interest rate
- Long term financing
  20 year terms – land and building
  10 year terms - equipment
- Preserves working capital
- Federal program attracts Wall Street funding to local community through 504 debentures
- Loan program is provided anywhere within the U.S. in any zip code
SBA 504 Project Examples

Project Examples—

1. Energy Policy Goal
   a. Energy Reduction – Bedford, Indiana
   b. Solar Panels – Northvale, New Jersey

2. Washington DC Urban Renewal

3. Graniteville, SC Brownfield Development
Energy Policy Goal – Energy Reduction

• Manufacturing – Geo-Flo Products Corp (Bedford, IN)
• Energy Goal: Reduction of energy by 20% using geothermal heating and cooling
• $4 Million Project
• 2 new jobs
• Renewable energy source of geothermal
Energy Policy Goal – Solar Panels

• Manufacturing/Food Processing – Filo Factory, Inc. (Northvale, NJ)

• Energy Goal: Reduction of energy usage by 10% with roof top solar panels

• $14 Million Project
• 20 new jobs
• 10% reduction in energy saves company $190,000 annually
Downtown DC Redevelopment

• 1968 Riots in DC led to
  o Damages estimated to $27 million
  o Inner city economy devastated
  o Businesses shut down and jobs lost
  o Middle class fled to suburbs
  o Crime rose
  o Property values declined
Aftermath of 1968 Riots – 14th Street - DC
Downtown DC Redevelopment

- DC Redevelopment
  - DC built new City Offices in the 1980’s on U Street
  - Metro opened the U Street station in 1991 and the Columbia Heights station in 1998
  - Professionals began to return to the city to live and work
  - Neighborhoods began to transition
  - Businesses began to spring up
Downtown DC Redevelopment

• Role of SBA in the DC Redevelopment
  o Three 504 Projects funded in the corridor in 1996 (approved in 1994, permitting required)
  o New projects followed so that there were one or two 504 projects on every block
  o Several projects have subsequently resold with further renovations made
  o Businesses include retail, restaurant, architects, catering, marketing, management services, etc.
1601 14th Street – Sample of Neighborhood Revitalization

Before

After
Fathom Creative - Sample

• Graphic design services
• $4.8 Million project
• 17 new jobs
• DC Revitalization Zone
• Expansion from NYC
• Funded in 2008
504 DC Projects
Brownfield Development

Before

After
Brownfield Development

Brownfield Redevelopment Due to 504 Loan

- SBA-504 Loan – CSRA Business Lending, Augusta, Georgia - $1,278,000
- Equity from Owners - $5,250,000
- Equity from $20 Million New Market Tax Credit Funding - $5,800,000
- German Government Financing of Equipment for Aldeman a German Manufacturer (German’s Version of Exim Bank) - $14,000,000
- Grant from State of South Carolina Governor Nicki Haley’s Discretionary Fund - $675,000
- Bank Loan – Southern Bank and Trust, Aiken, South Carolina - $1,825,000
- TOTAL - $28,828,000 + Brownfields Redevelopment + 200 Jobs and growing!
Brownfield Development

Brownfield Property Before 504 Loan and Development

• Avondale Mills in Graniteville, South Carolina, was closed January 6, 2005.
• One of the nation’s deadliest train accidents that occurred about 50 yards from the building.
• Seven (7) Avondale Mill employees, were killed. 250 other people were injured.
• 5,400 residents were evacuated within one mile of the crash site for a two-week period while Hazmat and Clean up crews decontaminated the area.
• Area declared a disaster area by South Carolina Governor Mark Sanford.
• Avondale Mills closed eliminating 1,200 jobs and several million square feet of space went dark overnight.
Brownfield Development

• Recleim is the first closed loop recycling and resource recovery system for both large and small appliance and electronics de-manufacturing in the United States.

• The technology allows appliances (refrigerators, ovens, washers, dryers, etc., - almost any household appliance) to be recycled.

• Old appliances no longer go to landfills.

• Drained to remove all ozone-depleting substances.

• Machine grinds up the appliance and separates the pieces into small marble size balls of stainless steel, aluminum, copper, brass, plastics, etc.

• Material is then resold to manufacturers. 95% of the appliance is recycled.
Contact Information

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