

## **SBA 504 Loans**

SBA 504 loans provide small business owners with the same sort of attractive long-term, fixed-rate financing available to larger businesses. Funds can be used to buy a facility, to buy land and to build a new building, to renovate or expand an existing structure and to purchase equipment and machinery for the businesses. This program is intended for small and medium-sized businesses. Normally the 504 loan is limited to 40% of the total project up to a maximum of \$1.5 million. However, underserved business categories, i.e. women owned, veteran or minority-owned businesses, projects located in enterprise zones and business exports, can secure up to \$2 million in SBA 504 funds. Small manufacturing firms can apply for up to \$4 million in SBA 504 loan program assistance.

Lenders/bankers will provide approximately 50% of the total project financing and will charge their own market interest rates on their permanent loan. During the initial acquisition/construction phase of the project, the private lender will have up to 90% of the total project costs outstanding. The SBA 504 loan is take-out financing and the SBA loan will be closed upon completion of the project. Interest rates on the 504 portion are set by the market each month when the SBA guaranteed 504 bonds are sold in New York as part of the monthly pooling of SBA 504 projects from around the country. When the bond is sold the interest rate is fixed for the life of the loan.

The term of the 504 loan may be either 10 years for machinery or equipment loans or the more common term of 20 years used for real estate loans. Generally the assets of the project being financed are adequate collateral for the purposes of the 504 loan program. Personal guarantees of the principal owners of the business will be required and in rare cases, personal assets may be attached. Generally, firms will show that they will create one new job for every \$50,000 of SBA 504 funds in the project within a two year period after the completion of the project. Businesses that meet the SBA's public policy goals do not need to show further job creation.

Columbia Township works with interested applicants and Hamilton County Development Company (HCDC) to acquire SBA 504 loans.