



**May 15, 2025**

# **SBA 504 Loan Program**

- ▶ **Stimulate Investment to Increase Productivity, Create New Jobs and Increase Local Tax Base**
- ▶ **Provide up to 90% financing with Long Term, Below Market Fixed Rate**
- ▶ **Assist Small Businesses with the purchase of land, buildings, construction/renovating/expansion of a building, purchase of Machinery & Equipment, and refinance eligible fixed asset loans**

# Geographic Area Served

- ▶ State of Minnesota
- ▶ Six Western Wisconsin Counties from La Crosse to St. Croix:
  - Buffalo County
  - La Crosse County
  - Pepin County
  - Pierce County
  - St. Croix County
  - Trempealeau County

# Benefits of the 504 Loan

## Lender Benefits:

- ▶ 504 Loans meets Community Reinvestment Act credit
- ▶ Risk management tool
- ▶ Excellent loan-to-value (typically 50% or less)
- ▶ Alleviates legal lending limit concerns
- ▶ 504 Corporation responsible for SBA processes, not bank
- ▶ Low down payment - reduces need for separate working capital line of credit
- ▶ First mortgage portion may be sold on secondary market

# Benefits of 504 Loan

## Borrower Benefits:

- ▶ Lower equity injection (10 to 20%)
- ▶ Below market 10, 20, or 25 year fixed interest rates
- ▶ Short-term assets (non-504) remain lien-free to support other financing needs
- ▶ Maturities: Equipment - 10 or 20 years, and Real Estate - 20 or 25 years
- ▶ 504 Refinance Program - cash out for working capital

# Eligible Businesses

- ▶ Most for-profit businesses in the U.S.
- ▶ Start-up or existing businesses
- ▶ Must create/retain jobs or another SBA public policy goal
- ▶ Meets SBA's small definition for business & its affiliates:
  1. Maximum combined tangible net worth - \$20 million and net profit after tax (2 year average) - \$6.5 million, or
  2. Meets SBA's revenue or job size standard limitations by NAICS code
- ▶ Demonstrate need for credit (credit not available elsewhere)
- ▶ Does not meet third party lender's conventional loan policy

# Ineligible Businesses

- ▶ Non-profit operating businesses (for profit subsidiaries may be eligible)
- ▶ Business engaged in lending
- ▶ Life insurance companies
- ▶ Business located in foreign country or owned by undocumented aliens
- ▶ Business selling through pyramid plan
- ▶ Business engaged in legal gambling (obtain more than 1/3 gross revenue of prior year)
- ▶ Business engaged in any illegal activity under federal, state or local law - Includes applicants who make, sell, service or distribute products/services in connection with illegal activity

# Ineligible Businesses (cont.)

- ▶ Business restricting patronage (i.e.; men or women only, etc.)
- ▶ Government owned entities, excluding Native American Tribes
- ▶ Passive Business including apartment, building rented to unrelated third-party, etc. (Owned by developers and landlords not actively using or occupying the assets)
  1. Hotels, Campgrounds, & Resorts eligible if more than 50% of revenue for prior year is from transient revenue sources (less than 30 days)
  2. Nursing homes, assisted livings facilities are eligible if they are “licensed” to provide healthcare and/or medical services.
  3. Hair & nail salons, dance studios that rent space are eligible as long as owner is an operator/operates business
  4. Mini warehouses, self storage facilities are eligible

# Ineligible Businesses (cont.)

- ▶ Business engaged in promoting a religion
- ▶ Business engaged in loan packaging
- ▶ Business with an associate of poor character (i.e.; felony, crimes against minor, etc.)
- ▶ Business providing prurient sexual material
- ▶ Business or affiliate has prior loss to the government and/or has delinquent federal debt
- ▶ Equity interest by CDC or associates in applicant concern
- ▶ Business primarily engaged in political or lobbying activities
- ▶ Speculative business

# 504 Loan Limits

## 504 Loan Maximum Per Project and Outstanding SBA Guarantees:

- ❖ Most projects: \$5 million per project / \$5 million outstanding
- ❖ \*\*Manufacturing: \$5.5 million per project / Unlimited outstanding
- ❖ \*\*Reducing energy use by 10%: \$5.5 million per project / Unlimited Outstanding
- ❖ \*\*Renewable Energy: \$5.5 million per project / Unlimited outstanding

*\*Combined SBA outstanding guarantees includes applicant and affiliates.*

*\*\*Do not count against total SBA cap for SBA 504 availability but DO count against SBA cap for future SBA 7a loans.*

# Eligible Project Costs

- ▶ Land Acquisition
- ▶ Purchase of Existing Building(s)
- ▶ Remodeling, Expanding, or Renovating Existing Building(s)
- ▶ Construction of New Buildings including Site Improvements
- ▶ Acquisition of Machinery and Equipment
- ▶ Eligible Fixed Asset Debt Refinance
- ▶ Contingency (up to 10% of improvements)
- ▶ Professional Fees (engineering, legal, appraisal, etc.)
- ▶ “Interim/Construction” Financing, Closing Costs and Interest

# Ineligible Project Costs

- ▶ Working Capital and Operating Expenses (except for 504 Refi Program)
- ▶ Counseling or Management Service Fees
- ▶ Incorporation or Other Organizational Costs
- ▶ Commitment & Broker Fees, and Third Party's "Permanent" Loan's Closing Costs
- ▶ Franchise Fees, Goodwill and Other Intangibles
- ▶ Equipment/Furnishings <10-year Useful Life Unless Essential & Minor Portion of Project
- ▶ Licensed Vehicles - Automobiles, Trucks, Airplanes
- ▶ Construction Equipment (except for heavy duty construction equipment with a remaining useful life of 10 years minimum)

# Basic 504 Loan Structure

## Financing/Equity Requirements:

- Lender (1<sup>st</sup> lien) 50%
- SBA 504 (2<sup>nd</sup> lien) 30-40%
- Borrower's Injection 10-20%

## Factors Impacting Borrower's Injection:

- Start-ups/Unproven Management = 15%
- Special-purpose Real Estate = 15%
- Both Start-up & Special Purpose RE = 20%

# Qualifies as Borrower Contribution

- ▶ Cash injection
- ▶ Equity in existing land/buildings being improved by 504 project's funds
- ▶ Funds borrowed or received from other sources:
  1. Economic Development Sources - If revolving loan, 10-year term is acceptable, subject to SBA's approval.
  2. Business or principal's loan secured by non-504 project assets with reasonable terms.
  3. Seller Carryback loan - NOT required to be on full standby. If collateralized by 504 project assets, then must have same term as 504 loan with no payment acceleration.

# **504 Expansion & 504 Debt Refinancing**

1. 504 Expansion Loan Program - purchase fixed assets with eligible refinancing of existing fixed asset loans.
2. 504 Debt Refinance Loan Program - refinance fixed assets with limited cash out for working capital.

# Expansion + Refinance

- ▶ The 504 Expansion Projects must include new purchase/construction of land, building, or equipment for the small business
- ▶ May also include refinancing of fixed asset loan of up to 100% of the cost of new fixed assets as long as the following conditions are met:
  1. At least 75% of refinanced loan originally funded 504 eligible fixed assets.
  2. Refinanced loan was originally incurred for the benefit of the small business.
  3. The refinancing provides substantial benefit to Borrower (i.e., 10% reduction in payments or has balloon payment).
  4. The existing debt is collateralized by the fixed assets.

# Expansion + Refinance (cont.)

- ▶ Borrower is current on refinance loan's last 12 month's payments.
- ▶ Refinancing will provide better terms or interest rate.
- ▶ The 504 Loan proceeds cannot be used to refinance debt owed to:
  1. An Associate of the 504 Loan applicant
  2. An SBIC
  3. Creditor in a position to sustain a loss causing a shift to SBA of all or part of a potential loss from the existing debt

# Sample Structure - Standard 50/40/10

- ▶ Existing Business
- ▶ General Use Real Estate
- ▶ Good Credit Risk
- ▶ Project Cost = \$1,000,000

Lender 1st Mortgage	\$ 500,000	(50%)
SBA 504 - 2nd Mortgage	\$ 400,000	(40%)
Borrower Cash Contribution	<u>\$ 100,000</u>	(10%)
Total Sources	\$1,000,000	(100%)

# Refinance Without Expansion

## Potential Projects:

- Refinance Existing Conventional loans
  - Improves Bank's liquidity position
  - Address borrower's loan covenants (i.e., liquidity - cash out, coverage ratio - long term/fixed rate, or collateral coverage)
  - Expand customers base
- Contracts for Deed
- Capital leases
- Existing government guaranteed debt - subject to limitations
- Balloon payment coming due

# **SBA 504 Refinance WITHOUT Expansion Eligibility**

- ▶ Cannot involve the expansion of a small business.
- ▶ The borrower has been in operation for at least 2-year period, evidenced by financial statements.
- ▶ If ownership has changed either partially or fully during the 2-year period, borrower may be considered a new business and not eligible if it has changed its ownership resulting in new ownership/management.

# Eligible Qualified Debt

The SBA 504 Debt Refinance Program must provide refinancing of Qualified Debt meeting the follow criteria.

Commercial loan not less than 6 months old

- ▶ 75% of the original proceeds were used to acquire eligible fixed assets
- ▶ Was incurred for the benefit of the small business concern
- ▶ Collateralized by eligible fixed assets
- ▶ May refinance two or more loans subject to each satisfying the Qualified Debt requirements
- ▶ May include government guaranteed debt - subject to limitations

In addition to the Qualified Debt, 504 project can include cash out for Eligible Business Expense.

# Eligible Business Expenses (Cash Out)

Eligible Business Expenses (EBE) are limited to the following:

- Business operating expenses paid within 18 months after the date of application.
- Business lines of credit and business credit card debt used for business expenses are allowed
- May not include capitalized expenditures unless they are immediately expensed, rather than capitalized and depreciated.

**\*Application must include a specific description and itemization of the Eligible Business Expenses.**

# Occupancy

## Existing Building

- Operating Company (OC) must occupy at least 51% of all buildings per parcel
- OC may lease out up to 49% indefinitely

## New Construction and Expanding Existing Building

- Business must occupy at least 60% of rentable property immediately
- Business may lease out up to 20% of rentable property indefinitely
- Business must occupy some of remaining space within three years and 80% within 10 years

# Loan Process

- ▶ Contact 504 Corporation staff to discuss project eligibility
- ▶ Submit 504 Corporation's Application Form & business information
- ▶ 504 Corp.'s reviews information and with Board's approval, submits formal application to SBA
- ▶ SBA approves loan and issues 504 Terms and Conditions Agreement
- ▶ Appraisal and environmental reports submitted to SBA for approval
- ▶ Third-Party lender funds interim financing to complete the project
- ▶ SBA 504 loan is closed, documents recorded, and sent to SBA for approval to sell the 504 Debenture
- ▶ 504 Debenture sold & proceeds wired to third-party lender (about 45 days)

# \$2,000 Incentive

## Reduces SBA 504 loan closing costs



# 504 Corporation Offices

Rochester Office:  
507-288-6442

Mankato Office:  
507-625-6056

Staff:

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