

PROGRAM: SBA 504 Loan Program **From Advantage**

AGENCY: Enchantment Land Certified Development Company (ELCDC)

DESCRIPTION: The SBA 504 program provides“...economic development financing specifically designed to stimulate private sector investment in long-term fixed assets to increase productivity, create new jobs, and increase the local tax base”. (SOP 50-10(4) 120.800).

ELIGIBILITY:

- Typical candidates for 504 loans are businesses that are healthy, for-profit and have a track record of growth.
- Company must be a small business, with a net worth of less than \$7 million and an average annual net PAT of less than \$2.5 million.
- New jobs must be created (or in some instances, job retention will suffice) as a result of the new fixed assets being financed. The rule-of-thumb is that a project must create one new job for every \$50,000 of debenture.
- However, projects with a high community impact and low direct job impact may be considered when achieving a Community Development or Public Policy goal.
- Manufacturing firms in NAICS 30, 31 and 32 may be eligible for up to \$4 million in debenture financing.
- A start-up business is eligible if, the small business concern can demonstrate:
 - that it has qualified management with related industry experience;
 - a strong business plan backed by thorough research and well-based financial projections;
 - access to an adequate amount of working capital, and a 20 % (or greater) overall equity contribution.
- Eligible use of 504 proceeds includes
 - Land/buildings - purchase existing building, new construction, remodel/renovations,
 - Machinery and equipment - minimum useful life of ten years,
 - 10% contingency for cost overruns, and
 - Professional fees-appraisal, architect, engineering, environmental report.

STRUCTURE:

- The SBA 504 program is a cooperative effort between the ELCDC / SBA, private sector lenders, i.e., banks and some non-bank lenders), and New Mexico Small Business Concern.
 - Small Business Concern: (applicant) contributes a minimum of 10% cash toward the total 504-loan eligible costs for a project. Single purpose type facilities require an additional 5%, and new/start-up businesses another 5% down.
 - ELCDC: The SBA (via ELCDC) provides up to 40% or \$1.5 million (\$2 million in certain circumstances), whichever is less.
- 504-loan is at a fixed interest rate for 20 years (10 yrs-equip).
- Private Sector Lender: provides the balance of the money (50%). The bank loan is at “reasonable” market rates and terms and at least 10-years when the 504-loan is 20-years.
- SBA 504 loans carry a fixed rate of interest - determined at the time the debentures are sold.
- 10-year terms are allowed for equipment purchases and 20-year terms for real estate.
- Private lender’s loan must carry a minimum term of 7 years for projects involving machinery and equipment, and 10 years for projects involving real estate. The private lender’s loan may be on a fixed or variable interest rate.
- Repayment of Interim Financing –

- Bank points & construction interest
- 504 project cannot include tenant space improvements
- No debt refinancing in 504 portion but, might be eligible to be structured and included in bank's first mortgage
- Collateral
 - SBA 504 loans are typically secured by a lien on fixed assets acquired with loan proceeds to reasonably assure loan repayment.
 - ELCDC/SBA's lien is subordinate to the private lender's position.
 - In addition, SBA requires the personal guaranties of the principals (with 20% or more ownership and/or a key management position)

QUALIFICATIONS/CRITERIA:

- Your application package should initially contain:
 - Description of the project;
 - Estimate of Total Project Costs, i.e. purchase agreement for real estate and/or equipment; construction contractor bid(s),
 - Three years tax returns (and a current interim) financial statements on the small business concern, and;
 - Personal financial statements of all officers/stockholders with 20% or more ownership in the business.
- Visit the ELCDC page at <http://www.elcdc.com/504.html> or try the SBA homepage at http://www.sba.gov/starting_business/index.html .