

PROGRAM: Small Business Administration (SBA) 504 Debenture Loans

AGENCY: Enchantment Land Certified Development Company (ELCDC)

DESCRIPTION: Provides lower interest rate and second mortgage financing for small and medium-sized business expansions.

ELIGIBLE USES:

- Purchase of land, buildings, machinery and equipment, and fixtures; construction and renovation of commercial facilities; and project-related costs. If working capital is required, a companion SBA Guarantee Loan (7a) may be considered provided the total SBA guarantee does not exceed \$1,000,000 or \$1.3 million if public policy goals are met.
- Public policy goals include expansion of export, business district revitalization, expansion of minority business development, rural development, expansion of woman-owned business development, enhanced economic development, etc.

PROGRAM/LOAN STRUCTURE:

- Typically, the participating lender provides a 50% first mortgage loan on the project; SBA guarantees a debenture up to 40% of the project cost; and the business applicant injects 10% equity. Sizes range from \$50,000 up to \$1.3 million.
- The maximum SBA debenture is \$1,500,000 when meeting the job creation criteria or a community development goal. Generally, a business must create or retain one job for every \$50,000 provided by the SBA except for "Small Manufacturers" which have a \$100,000 job creation or retention goal.
- Equity: Minimum 10% equity investment in the project is required. The 504 structure frees up additional cash for productive working capital purposes. The applicant must have reasonable equity in the business. A new business (less than 2 years in operation) may require at least a 15% injection; a single-purpose building requires at least a 15% injection; the combination of a new business and single-purpose business requires at least a 20% injection.
- Maturities: Generally, lender participation is 10 years or more; debenture maturities are 10 or 20 years.
- Rates: The lender's rate is negotiated between the lender and the applicant; debentures are indexed to the 10- or 20-year U.S. Treasury Bond rates.
- Fees: Total approximately 3% of the debenture amount.

QUALIFICATION CRITERIA/COMMENTS:

- Size standards under this program differ from other SBA loan programs:
 - Net worth does not exceed \$7,000,000; and
 - Average net profits do not exceed \$2,500,000.
- The SBA requires that a nonprofit Certified Development Company (CDC) provide loan packaging and other technical services. The CDC must be approved and certified by the SBA.
- For more information, visit <http://www.sba.gov/financing/sbaloan/cdc504.html> or the homepage at www.sba.gov .