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## THE WALL STREET JOURNAL.

WSJ.com

JUNE 21, 2010

# The SBA Has a Deal for You

*It's called a 504 loan. Here's what you need to know about it.*

By [MARSHALL ECKBLAD](#)

The government is trying to entice more small businesses to tap one of its loan programs. Before applying for one of these loans, though, there are some fine points borrowers should consider.

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transaction's total price.

With the weak economy deterring many small businesses from expanding in the past couple of years, demand for these loans plummeted: Last year, the SBA approved \$3.8 billion in 504 loans, down 28% from 2008 and 40% from 2007. Hoping to spur expansion among small companies, the SBA is offering inducements like lower rates and no-fee deals.

The plan seems to be working, since demand is picking up again. If you're thinking of pursuing a 504 loan, though, there are some strategies and caveats to keep in mind.

Here's what you need to know.

### *Finding a Lender*

First, you may not be able to get one of these deals with your primary bank; many lenders aren't interested in offering them.



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Tim Grajek

Why? Only about half the final government-insured loan amount sits on a bank's balance sheet, with much of the rest covered by a bond offering. Some banks prefer to offer SBA loans through programs that allow them to hold the whole loan and collect its full interest payments.

Grady Hedgespeth, director of the SBA's Office of Financial Assistance, advises small-business owners to start by contacting the nearest certified development corporation, an authorized government partner in the 504 program. CDCs are typically nonprofits that aim to promote growth among small-businesses.

The SBA's website, [SBA.gov](http://SBA.gov), also lists local SBA offices that can provide data for which lenders are issuing the most 504 loans and are therefore more likely to know the program well.

Remember, though: The government offers guarantees and parameters for 504 loans, but many details are left up to borrowers and lenders to negotiate; different banks may offer different terms.

Because terms can vary, ask to see side-by-side quotes for a 504 loan and a conventional commercial mortgage or construction loan. Although the 504 program will usually offer a better deal, your lender should make sure.

### *Mind the Gap*

Even after choosing the 504 option, many borrowers will need "gap financing," since some deals will face a 60- to 90-day delay between closing and government funding.

That gap can reach a full year for construction projects, since the government doesn't deliver the money and its guarantees until after the property is completed.

Prices and terms for temporary mortgages typically vary based on the property, lender and region. These loans are usually available from the lender executing the 504 loan, but they may carry additional requirements.

Solera Salon Inc., in Greenwood Village, Colo., was recently approved for a 504 loan to build new facilities. But the company had to pledge additional assets, beyond the 10% down payment for the SBA loan, to secure gap financing.

Apart from shopping for rates, experts say it's important to look at each loan package's fees and other terms—especially what happens if the project unexpectedly violates SBA rules.

Michael Kleinberg, Solera's chief financial officer, notes that Solera will lose its 504 loan, and be stuck with its pricier gap financing, if the project suffers any "materially adverse" change, such as a lawsuit.

### *Refinancing Issues*

Another challenge: Currently, the program only allows borrowers to refinance a portion of an existing loan if the business uses at least two-thirds of the proceeds to invest in expanding.

Congress hasn't yet authorized the program to allow current business borrowers to refinance existing whole loans. But the SBA hopes such a deal will be in place soon.

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