



## FOR IMMEDIATE RELEASE

**Contact:** Sara Vanhala  
[vanhala@growthcorp.com](mailto:vanhala@growthcorp.com)  
217-787-7557

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### STAY COMPETITIVE WITH ALTERNATIVE LENDING PROGRAM

***Recent economic uncertainties suggest the need for alternative lending programs. Banks and small business owners nationwide are discovering a loan program that not only helps them stay competitive, but mitigates their risk as well.***

We all know how tough these economic times are. Let's face it, banks are more selective about extending credit and are even walking away from possible loan projects. Small business owners know what they are up against too. It has become increasingly difficult for small business owners to get a conventional loan due to more stringent loan terms and higher credit standards.

Wouldn't it be nice if you could utilize a program that would benefit both the banker and the borrower and make both more competitive in their respective markets? A program that would provide borrowers with 90% financing on their acquisition loan and slash the lenders risk to half of the project cost? How? By utilizing a program many people don't even know about. The 504 Loan Program.

To explain the program, we enlisted the help of Marcia Abner, Vice President of Small Business Growth Corporation.

**Q.** What is the 504 loan program?

**A.** The 504 Loan Program was established over 25 years ago by the U.S. Small Business Administration. The program is designed to promote economic development and works in conjunction with local banks to allow small business owners to receive up to 90% financing for the acquisition, construction, improvement, or expansion of commercial property or for acquiring heavy machinery or equipment. The program essentially consists of three key elements: 50% of the projects total cost is provided by a lending institution, usually a bank; 40% is provided through the 504 Loan Program; and 10% equity is provided by the borrower. *(Start-up businesses and single purpose facilities require a slightly higher equity contribution.)*

Q. Just what exactly constitutes a business as being small?

A. A small business is defined as any firm with a net worth of less than \$8.5 million and an average of less than \$3 million in annual profits.

Q. What type of business qualifies for a 504 Loan?

A. The 504 Loan Program is actually a very diverse program and can encompass many types of businesses. Business types range from manufacturers, retailers, distributors, and contractors, to many types of service industries including medical offices, hotels, restaurants, and recreational facilities. Most businesses qualify for 504 financing if they meet the size guidelines and are upstanding, for-profit businesses. However, businesses must also have a successful track record and growth potential.

Q. What can a 504 Loan be used for?

A. Qualifying projects should involve the purchase, construction, or improvement of fixed assets such as land and building and/or the purchase of heavy machinery and equipment. Projects that qualify must promote economic development, which generally means the creation or retention of jobs. However, this can also encompass meeting public policy goals such as minority ownership or rural development.

Q. How much can be financed?

A. There is no limit on the size of the deal, but the 504 portion is limited to \$1.5 million. This amount is increased to \$2 million for projects that fulfill Public Policy goals. For manufacturing companies, the 504 portion is increased to \$4 million.

Q. What defines a "small" manufacturer?

A. To qualify as a small manufacturer the business must be classified under sector 31, 32, or 33 of the North American Industrial Classification System (NAICS). Also, the business must have all of its production facilities in the United States. Small manufacturers must follow the same economic development requirements of job creation and/or meeting public policy goals.

Q. Are there any limitations?

A. There are occupancy requirements that must be met to qualify for the 504 Loan. Owner occupancy requirements with the 504 are 51% for existing buildings and 60% for new construction. The owners can lease out the remaining part, thus benefiting from rental income. The 504 cannot be used for

working capital or inventory, consolidating or repaying debt, or for refinancing. In addition, loans cannot be made to businesses engaged in speculative business practices or for investment in rental real estate.

Q. Who do borrowers contact about getting a 504 Loan?

A. Certified Development Companies (CDC's) are authorized to administer the 504 Loan Program throughout the United States. The various roles of a CDC include assisting businesses and lenders with qualifying projects for 504 financing, preparing/processing a complete application, and closing the 504 loan. More than 260 CDC's operate the program nationwide, and each state has at least one.

Q. With the credit crunch we are facing, should borrowers wait to invest in commercial real estate?

A. Not at all. There are a lot of misconceptions out there that the 504 loan program has been "frozen" due to the economic crisis. This is not true. Now is a great time to utilize the program. When the economy is strong and access to capital is relatively easy, there is typically less demand for alternative financing. However, use of the 504 loan tends to become increasingly important as a source of long term financing when traditional sources of money decline, as they have in recent months. The program was actually designed to provide small businesses access to capital that might not otherwise be available through conventional means. The fees associated with the program have just been lowered again, saving borrowers even more money.

Q. But what about those borrowers that worry about making a large down payment right now? Won't it strain the cash flow they use to operate their business?

A. We understand those concerns...while a real estate purchase is good for the business' long-term bottom line, what will it do in the short term if a lot of cash is put into the down payment? The 504 Loan Program actually preserves working capital by requiring only a 10% down payment...slashing the equity contribution to half of what conventional financing requires. Therefore, operating capital is preserved for the daily operation of the business.

Q. What if a borrower has a long-standing relationship with a bank and wants to maintain that?

A. The program actually works in conjunction with local banks and credit unions, allowing borrowers to maintain that relationship. The 504 is structured to be a win-win for both lenders and borrowers. Lenders benefit by being able to extend financing to companies in a way that might not otherwise be available and they get first lien position on the assets financed. The lender sets the interest rate for their portion of the loan, and by participating in the 504 Program, will also meet economic development and community reinvestment goals. Meanwhile, the borrower benefits include a low 10% down payment and a low, long-term fixed rate.

Q. With the economic problems facing our country, can borrowers trust the loan program to be around?

A. Yes...you can trust the 504 Loan Program to be around for the long haul. Funds for the 504 come from the sale of long term bonds each month. These bonds carry the full faith and backing of the U.S. government and present an attractive investment option for investors. The sale of 504 bonds has been successful every month for the past 27 years. In fact, the 504 Loan runs at no cost to taxpayers, therefore, appropriation of funds by Congress is not necessary.

Q. I've heard that the 504 Program takes too long to get and requires too much paperwork.

A. There are a lot of misconceptions associated with the 504 Program. Realistically, a 504 loan can be closed in a reasonable amount of time if the client has adequately prepared for their expansion project. All the paperwork is handled by the CDC; therefore it shouldn't require much more from the borrower than what they would normally submit to their bank for a conventional loan. I would also like to address a couple more rumors that I've heard. Many borrowers think the program is only for those with less than perfect credit and that is absolutely not true. The 504 Loan Program is for any qualifying business that could benefit from a low equity injection and long term fixed rates. And, we hear borrowers fear the fees are too high. In reality, the fees associated with the program were just reduced so 504 loans are more affordable than ever.

Overall, the 504 Loan Program is worth considering for borrowers who need to make new capital improvements or expand an existing facility. It's a great alternative lending program that can actually fuel the small business market. We're trying to get the message out there, "Don't give up on your plans...just consider financing alternatives".

*Marcia Abner specializes in 504 Loans and is an expert in assisting lenders and small businesses with 504 financing. You can contact her at (217) 787-7557 or read about the program at [www.growthcorp.com](http://www.growthcorp.com).*