



FOR IMMEDIATE RELEASE

Contact: Sara Vanhala
vanhala@growthcorp.com
217-787-7557

504 Loan Program is Vital to Gaining the Competitive Edge in Small Business Banking

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 handling a heavy load of problems and are more selective about extending credit. In fact, many banks are walking away from possible loan projects and reducing their exposure in an attempt to prevent problem loans.

Small business owners know what they're up against too. Two of the most recognized hurdles facing business owners are preservation of capital (*Will a large down payment strain my cash flow?*) and finding appropriate financing (*What types of financing are best for me? Will I qualify for real estate financing?*). 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 borrower...that would make both more competitive in their respective markets? A program that would provide the borrower 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.

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 is structured to be a win-win situation for both banks and business owners. Small business owners are able to utilize up to 90% financing to acquire/remodel their commercial property. Lending institutions benefit by being able to extend financing to companies in a way that may not otherwise be available and the bank gets first lien position on the assets financed. The bank sets the interest rate for their portion of the loan, and by participating in the 504 program, they also meet economic development and community reinvestment goals.

The program works in conjunction with local banks to allow 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 project's 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.)

Most types of businesses are eligible to receive 504 financing. Businesses with a successful track record and growth potential can generally qualify for the 504 Loan Program, as well as start-up companies, if they are for-profit and average less than \$3 million in after-tax profits and \$8.5 million in net worth. Qualifying projects should involve the purchase,

construction, or improvement of fixed assets such as land and building and/or the purchase of heavy machinery or equipment. Projects that qualify must promote economic development, which generally means the creation or retention of jobs.

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 minority owners and projects that fulfill public policy goals. For manufacturing companies, the 504 portion is increased to \$4 million.

Another nice feature of the program is that some furniture, fixtures, and small equipment can be added to the 20-year loan. For example, a hotel that would cost \$2,000,000 to construct may have \$300,000 in furniture and equipment. Rather than have a short term 5-year loan on the \$300,000, this amount is added to the total project and financed over the 20-year term. This increases the cash flow of the borrower, as well as their ability to be successful.

Certified Development Companies (CDC's) are authorized to administer SBA 504 Loans 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.

There are some misconceptions out there that the 504 Program has been "frozen" due to the economic crisis. This is not true. Now is the time to utilize the 504 Loan 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.

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 Program runs at no cost to taxpayers, therefore, appropriation of funds by Congress is not necessary.

The 504 Loan Program promotes economic development while simultaneously providing numerous benefits to banks and business owners...a program perfectly designed to fuel the small business lending market.

Gant Harper is Vice President of Small Business Growth Corporation, a Certified Development Company. His company focuses exclusively on providing SBA 504 loans and he is an expert in assisting small businesses and lenders with 504 financing. You can contact him at 636-627-7340 or read about the program at www.growthcorp.com.