

# SBA 504 LOANS

## COMMERCIAL BUYERS GUIDE



The decision on when to purchase commercial real estate is often a difficult one. The business executive has to weigh many factors, with one of the largest factors being how the company will finance the purchase. And, let's face it, most financing options usually require 20% equity from the borrower. So the \$2 million dollar facility that will allow the company to expand and grow is going to set them back \$400,000 in cash, capital and collateral.

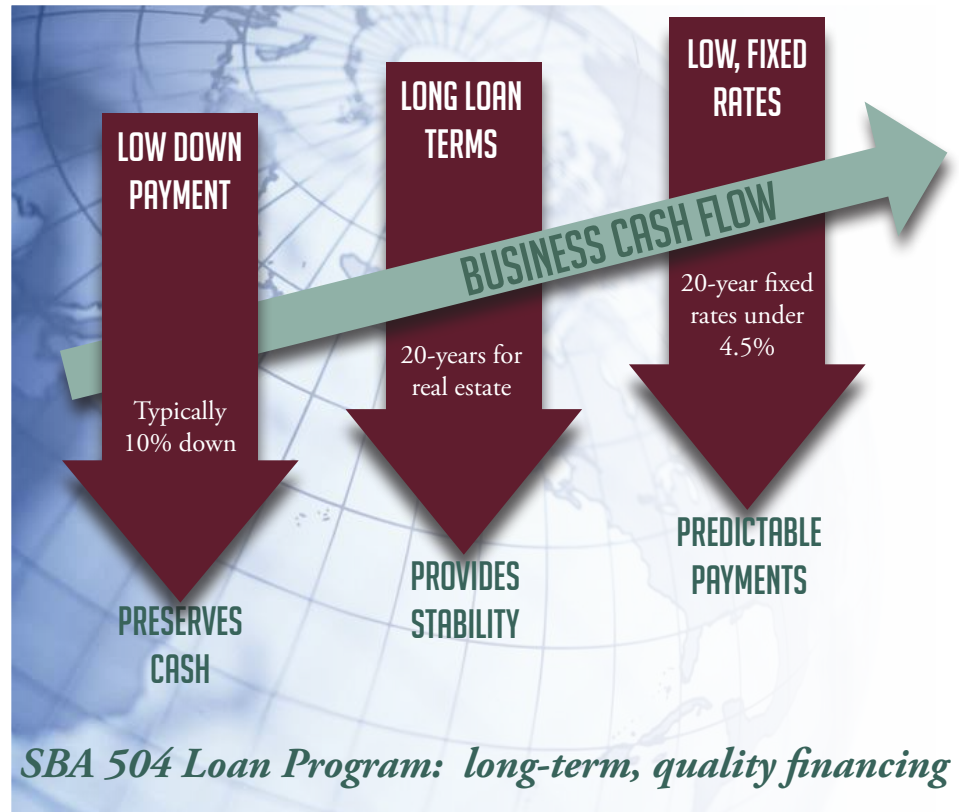
*Wouldn't it be nice if you could reduce your equity injection to 10% or less at the outset and ask the bank for only 50% of the project cost?* How? By utilizing a program established over 30 years ago by the SBA.

The SBA 504 Loan Program allows business owners to acquire commercial real estate or equipment with a minimum equity injection of usually 10%. Better yet, the SBA then lends the next 40% of the project cost and takes second position behind the bank's final portion of the deal - which is 50%. Plus, the SBA loan is at a fixed rate for 20 years (or 10 for equipment) with no balloon.

### SBA 504 - KEY CONSIDERATIONS BEFORE YOU GET STARTED

- *Are you looking to buy, build and/or renovate commercial real estate?*
- *Are you going to utilize at least 51% of the usable square footage of the property?*
- *Is your company for-profit and located in the United States?*
- *Does your business, including affiliates, have a tangible net worth of less than \$15 million and after-tax profits, averaged over the last two years, of less than \$5 million?*

If you answered yes to those four questions, you may be a good candidate for the 504 Loan Program.



### KEY BENEFITS OF THE 504

- **90% Financing**
- **Long-term, Fixed Interest Rates**
- **Long Loan Amortizations**
- **No Balloon Payments**
- **No Disruption of Existing Banking Relationships**

### ADVANTAGES OF OWNING

- Stabilize, or even reduce, the business owner's monthly real estate expense
- Build equity - increases net worth with every monthly payment
- Additional tax savings
- Long-term appreciation
- Business can continue to generate income even after owner retires
- No monthly lease expense in the future
- Offers stability in a rising rate market

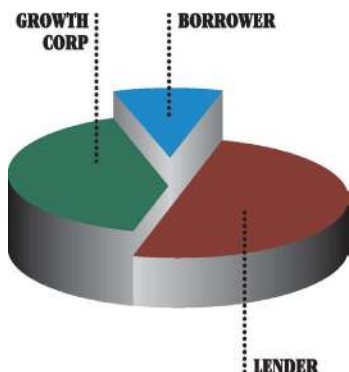
### FINANCE TOTAL PROJECT COSTS

Conventional loans typically only finance a percentage of either the appraised value or the purchase price, whichever is less. With SBA 504 loans, the financing can include land and existing structures, hard construction and renovation costs, furniture, fixtures, equipment, soft costs and closing costs. The ability to roll these additional costs into the loan instead of paying for them out-of-pocket is a big deal to most small business borrowers.



**877-BEST 504**  
[www.GrowthCorp.com](http://www.GrowthCorp.com)

SBA 504 Loans are structured very differently than conventional loans. A typical 504 project has a 50-40-10 split, with a first mortgage covering up to 50% of the total project cost, a second mortgage for 40% of the total project cost, and then 10% equity from the borrower. This structure makes it possible for business owners to own commercial real estate with less money down, longer loan terms and low, fixed interest rates.



#### 50% OF TOTAL PROJECT COSTS

- Conventional loan at market rates
- Provided by a lending institution, usually a bank
- Option of fixed or variable interest rate
- Up to 25-year amortization

#### 40% OF TOTAL PROJECT COSTS

- Fixed rate bond with a government guarantee
- Provided by Growth Corp as an SBA 504 Loan
- Fixed interest rate for the life of the loan - no balloons
- Up to 20-year amortization

#### 10% OF TOTAL PROJECT COSTS

- Down payment provided by the borrower
- Can use equity in land if already purchased
- Can use prepaid soft costs, like architectural or engineering fees
- 15% equity requirement on special use properties or start-ups; 20% if both

## CASE STUDY OVERVIEW



### CHALLENGE

A manufacturing firm had outgrown their leased facility and needed to move to a larger building. While purchasing the real estate made sense, allocating the cash for a down payment was a problem.



### SOLUTION

Utilizing the 504 Loan Program, 90% of the project costs were financed thereby conserving the company's cash and preserving the necessary working capital to support continued growth.



### RESULT

The combined monthly payment on the acquisition of their building is actually less than their lease payment was. In addition, the company has expanded production and increased their storage capabilities.

## PROJECT STRUCTURE

PROPERTY:		55,000 SQ. FT. BUILDING	
<b>TOTAL PROJECT COSTS</b>			<b>\$2,500,000</b>
<i>SOURCE OF FUNDS:</i>			
	BANK	50%	\$1,250,000
	CDC/SBA 504	40%	\$1,000,000
	BORROWER EQUITY	10%	\$250,000
<b>TOTAL</b>		<b>100%</b>	<b>\$2,500,000</b>

### DEBT SERVICE ESTIMATE

	AMOUNT	INTEREST RATE	TERM	MONTHLY PAYMENT
BANK*	\$1,250,000	5.00%	20 YEARS	\$8,249
SBA 504**	\$1,025,000 <small>(ROUNDED UP TO INCLUDE FEES)</small>	4.30%	20 YEARS	\$6,375
EQUITY	\$250,000			
<b>TOTAL</b>	<b>\$2,525,000</b>			<b>\$14,624</b>

\*Estimated Bank rate and term

\*\*The rounded up amount does not include application fee and any miscellaneous closing costs

*The SBA 504 Loan Program preserves capital and maximize cash flow, making it the smart choice for business owners looking to own commercial real estate.*

Growth Corp is a not-for-profit organization empowered by the U.S. Small Business Administration to marshal the 504 Loan Program to small businesses throughout the state of Illinois, and parts of Missouri, Indiana, Iowa and Kentucky. Growth Corp is focused exclusively on local economic development and job creation.

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