

# 504 Loan Program

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U.S. Small Business Administration



## **What is a 504 business loan?**

The 504 loan, also known as a certified development company loan, finances the purchase of fixed assets, such as owner-occupied business real estate and equipment.

## **How does a 504 loan help a small business?**

Growing businesses need more space in which to expand. This rapid growth leaves a small business strapped for cash, often making it difficult to qualify for traditional commercial real estate loans because down payments of 30 percent or more can be required. The 504 loan program requires a 10 to 20 percent down payment.

## **How can the money be used?**

The loan may be used to purchase land and construct a building, renovate a building, buy a building and buy equipment, which has a useful life of at least ten years. The money may not be used to refinance existing debt, purchase inventory or provide working capital.

## **How much may I borrow?**

Typically, real estate financed by this loan program costs between \$500,000 and \$1.5 million. In most instances, the maximum amount SBA can finance under job creation guidelines is \$1.5 million. For 504 loans meeting public policy guidelines, the maximum amount SBA can finance is \$2.0 million and for manufacturers, \$4.0 million. Generally, for every \$50,000 SBA provides, the small business must create or retain one job.

## **What is the interest rate and what is the maturity?**

The interest rate is fixed on the SBA second mortgage and is slightly above the current rate for five- and 10-year U. S. Treasury issues. The maturity is either 10 or 20 years.

## **What do you mean by an SBA second mortgage?**

SBA finances 30 to 40 percent of the money needed and secures its note with a second deed of trust on the property being financed. A private lender, usually a commercial bank, finances 50 percent of the money needed and secures its note with a first deed of trust. The small business owner comes up with the remaining 10 to 20 percent as a down payment. For example, if it costs \$1.2 million to purchase vacant land and construct a building for your small business, a bank would lend you \$600,000 (50%), SBA would lend you \$360,000 (30%) to 480,000 (40%) and the small business's down payment would be \$120,000 (10%) to \$240,000 (20%).

## **How do you know if you are a small business under the 504 guidelines?**

A business is small if its net worth is \$8.5 million or less and its average net profit after federal taxes for the past two fiscal years does not exceed \$3.0 million.

**How does a small business apply for this financing?** Contact a certified development companies listed on the reverse side of this paper.

Colorado District Office  
Small Business Administration  
721 19<sup>th</sup> Street, Suite 426  
Denver, Colorado 80202-2517  
Phone: 303-844-2607  
Web address: <http://www.sba.gov/co>

As of 10/02/2008

## CERTIFIED DEVELOPMENT COMPANIES

### **Community Economic Development Company of Colorado Accredited Lender Program - (ALP) d/b/a Small Business Finance Corporation**

1175 Osage Street, Suite #110

Denver, Colorado 80204

Contact: Bill Bacon (303) 893-8989/FAX (303) 892-8398

Pat Berry (970) 243-5442 ext 409 [Grand Junction Office]

Edith A. Corwin-Newberg (970) 264-0496 [Pagosa Springs Office]

E-mail: [bill@cedco.org](mailto:bill@cedco.org)

Area of Operation - Colorado

### **Preferred Lending Partners, a Denver Urban Economic Development Corporation company**

140 E 19<sup>th</sup> St, Suite 202

Denver, Colorado 80203

Contact: Stephanie G. Gerring, Director (303) 861-4100/FAX (303) 861-9456

E-mail: [stephanieg.preferredlendingpartners.net](mailto:stephanieg.preferredlendingpartners.net)

Area of Operation - Colorado

### **Front Range Regional Economic Development Corporation Preferred Certified Lender-(PCL) d/b/a Colorado Lending Source Accredited Lender Program - (ALP)**

518 17<sup>th</sup> St, Suite 1800

Denver, Colorado 80202

Contact: Mike O'Donnell, Director (303) 657-0010/FAX (303) 657-0140

Tod Cecil (970) 947-1400 (Glenwood Springs Office)

E-mail: [info@ColoradoLendingSource.org](mailto:info@ColoradoLendingSource.org)

Area of Operation - Colorado

### **Pikes Peak Regional Development Corporation**

322 S Cascade Avenue

Colorado Springs, Colorado 80903

Contact: Douglas Adams (719) 471-2044 /FAX (719) 471-2042

E-mail: [dfa@pprdc.com](mailto:dfa@pprdc.com)

Area of Operation - Colorado

### **SCEDD Development Company d/b/a Business Lending Center**

1104 N Main Street

Pueblo, Colorado 81003

Contact: Allison Cortner, Executive Director (719) 545-8680/ FAX (719) 545-9908

E-mail: [allison@scedd.com](mailto:allison@scedd.com)

Area of Operation - Colorado

### **Greater Salt Lake Business District d/b/a Mountain West Small Business Finance**

2595 East 3300 South

Salt Lake City, UT 84109

Accredited Lender Program - (ALP)

Contact: Robert Edminster (801) 474-3232 FAX (801) 493-0111

E-mail: [Robert@mwsbf.com](mailto:Robert@mwsbf.com)

Area of Operation- Moffat, Rio Blanco, Garfield, Mesa, Montrose, San Miguel, Dolores, Montezuma, and La Plata counties.

# 7(a) Loan Guaranty Program

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U.S. Small Business Administration



Your Small Business Resource

## What is a 7(a) business loan?

It is a commercial business loan funded by your local bank and guaranteed by the Small Business Administration. SBA guarantees range between 75-85 percent of the loan amount.

## How does a 7(a) loan help a small business?

Lenders have very strict credit criteria (lending guidelines) for their commercial business loans. They apply to SBA for a guaranty when a small business does not quite meet all these criteria but is still a good credit risk. Lenders also use the SBA loan guaranty program to provide the small business a longer maturity, which lowers the monthly payment. Without the SBA guaranty, the lender may not approve the loan, and the small business would not have the capital it needs to succeed.

## How can the money be used?

An existing or new business may purchase machinery, equipment, furniture, and inventory; refinance existing loans under certain conditions; purchase, build or expand owner-occupied business real estate; and finance short-term or long-term working capital needs. Loan funds may also be used to purchase an existing small business.

## What is the interest rate and how long does a small business have to repay the loan?

The interest rate and maturity are negotiated with the lender, within certain guidelines established by SBA. Generally, the interest rate will not exceed prime rate plus 2.25 for a loan with less than a 7 year maturity and 2¾ percent for a maturity greater than 7 years. For small loans below \$50,000 interest rate maximums may be higher. The maturity may range from 5 years to 25 years. Money borrowed for working capital will have a shorter maturity than money borrowed to purchase business real estate.

## Is there a cost to the borrowing for obtaining an SBA 7(a) guaranty?

Yes. SBA charges a fee for its guaranty. For 7(a) loans approved after October 1, 2004, with a maturity exceeding 12 months, SBA charges the following fees:

- (1) A guaranty fee equal to 2.0% of the SBA guaranteed portion of a total loan amount that is not more than \$150,000 (Lender retains 0.25% of the guarantee fee)
- (2) A guaranty fee equal to 3.0% of the SBA guaranteed portion of a total loan amount that is more than \$150,000 but not more than \$700,000
- (3) A guaranty fee equal to 3.5% of the SBA guaranteed portion of a total amount that is more than \$700,000 but not more than \$1,000,000.
- (4) A guaranty fee equal to 3.75% of the SBA guaranteed portion of a total loan amount that is more than \$1,000,000.

## Will the owners be required to personally guarantee the loan?

Yes. Anyone owning 20 percent or more of a small business will be required to personally guaranty the loan.

## How much money may a small business borrow?

The maximum loan amount under SBA's 7(a) guaranteed loan program is \$2.0 million and the maximum SBA guaranty is \$1.5 million.

### **How do you know if you are a small business under the 7(a) guidelines?**

If you are starting a new business, you are small because you have not yet opened for business. If you are an existing business, you are generally considered small if annual sales are \$5 million or less and you have no more than 100 employees. There are some exceptions where annual sales and number of employees may exceed these amounts. Please call our office if you have a question.

### **How do you apply for a 7(a) loan?**

An existing small business (or new small business) applies to a bank for a business loan. Most banks in Colorado are familiar with SBA's loan guaranty program. The lender approves the loan, subject to SBA's guaranty, and applies to SBA for the guaranty. SBA approves the guaranty and informs the lender. The lender prepares the loan closing documents and funds the loan.

### **How long does the process take?**

SBA's processing time generally takes 8-15 working days from the day SBA receives the complete application from the lender. The more complex the application, the more time it takes to review it. The lender's processing times may vary.

## **SPECIALIZED 7(A) LOANS**

**SBAExpress** – This loan program provides financing up to \$350,000 with a 50% guarantee. The application process is streamlined, and allows the lender to use its own credit analyzes, loan procedures, and loan documentation. SBA completes its review of the application within 24 hours.

**Community Express** – This loan program providing financing up to \$250,000 with a 75-85% guarantee depending on the loan amount. The business must be located in a rural area or low-moderate income (LMI) area of the state. The application process is streamlined, and SBA completes its review of an application within 24 hours.

**CAPLines (Current Asset Program)** – This is a short-term commercial line of credit to fund working capital needs, such as inventory and accounts receivable.

**SBAExport Express** – This loan program provides financing up to \$250,000 with a 75-85% guaranty. Applicants must demonstrate that the loan proceeds will enable them to enter a new export market or expand an existing export market, and the business has been in operation, though not necessarily in exporting, for at least 12 months. Export *Express* lenders use expedited loan review and approval procedures to process SBA guaranteed loans. The SBA provides the lender with a response, typically within 36 hours.

**EWCP loan (Export Working Capital Program)** – This is a short-term, commercial line of credit to fund working capital needs for companies that export goods or services overseas.

**IT (international trade) term loan** – This is a long-term loan for companies that export goods or services overseas. Loan funds may be used for acquisition, construction, renovation, modernization, improvement or expansion of long-term fixed assets or to refinance an existing loan used for these same purposes. The maximum SBA guaranty amount is \$1,750,000.

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# 2009 RECOVERY ACT



## HELPING SMALL BUSINESS START, GROW AND SUCCEED

### **SBA's Surety Bond Guarantee Program Temporarily Raises Ceiling to \$5 million**

If your small construction, service or supply company bids or performs projects requiring surety bonds, the U.S. Small Business Administration has good news for you.

Under the American Recovery and Reinvestment Act, the SBA can temporarily guarantee bonds on contracts up to \$5 million for small businesses that otherwise couldn't obtain bonds through standard channels. The previous limit was \$2 million, and the higher limit is available until Sept. 30, 2010. In addition, SBA is working on implementing another Recovery Act provision that will allow in some cases SBA to guarantee bonds on contracts up to \$10 million.

Small business contractors can overcome challenges they face in winning government or private contracts by using the SBA's Surety Bond Guarantee Program. Broadly speaking, a surety bond is a contract between the surety company and the contractor (principal) for the benefit of a third party – usually the project owner or another contractor. If the contractor is unable to successfully perform the contract, the surety assumes the contractor's responsibilities and ensures that the project is completed.

Under SBA's surety bond guarantee program, SBA reimburses the surety between 70 and 90 percent of the costs incurred if a contractor defaults.

The SBA Surety Bond Guarantee Program covers four types of major contract surety bonds:

- Bid Bond – guarantees the project owner that the bidder will enter into the contract and furnish the required payment and performance bonds.
- Payment Bond – guarantees the contractor will pay all persons who furnish labor, materials, equipment or supplies for use on the project.
- Performance Bond – guarantees the contractor will perform the contract in accordance with its terms, specifications and conditions.
- Ancillary Bond – bonds that are incidental and essential to the performance of the contract.

There are two surety bond guarantee programs:

- The Prior Approval Program – The SBA guarantees 80 or 90 percent of a surety's loss. Participating sureties must obtain SBA's prior approval for each bond.
- The Preferred Surety Bond Program – Selected sureties receive a 70 percent guarantee and are authorized to issue, monitor and service bonds without the SBA's prior approval.

## PROGRAM ELIGIBILITY REQUIREMENTS

In addition to meeting the surety company's bonding qualifications, you must qualify as a small business concern. This means that your company, together with your affiliates, must meet the small business size standard for the industry in which your company is primarily engaged, as defined by the North American Industry Classification System (NAICS) Code.

For more information about SBA's size standards go to:

[www.sba.gov/smallbusinessplanner/start/financestartup/SERV\\_ELIGIBILITY.html](http://www.sba.gov/smallbusinessplanner/start/financestartup/SERV_ELIGIBILITY.html).

## HOW TO APPLY

The SBA does not directly bond a contractor. The contractor chooses a bonding agent who represents an SBA surety company participant. An agent is an individual who has power-of-attorney to issue bonds on behalf of a surety. The contractor fills out the surety application and the required SBA forms, providing the agent with the required credit, capacity and character information. The agent then underwrites the application and decides whether to execute the bond with or without an SBA guarantee. To view the list of Participating Surety Companies and Agents go to [www.sba.gov/osg/](http://www.sba.gov/osg/).

## COSTS

The cost charged a contractor by the surety company for a surety bond is called the "bond premium." The SBA also charges fees to both the contractor and the surety company. SBA charges the contractor a guarantee fee of \$7.29 per thousand dollars of the contract amount, and charges the surety 26 percent of the premium that the surety charges the contractor. SBA does not charge a fee for bid bond guarantees. For more information about the Surety Bond Guarantee Program visit: [www.sba.gov/osg/](http://www.sba.gov/osg/).

SBA Surety Bond Guarantee Area Offices can answer small business's questions about the program and can provide small businesses with a list of surety companies in their states.

### DENVER AREA OFFICE

Supervisory Surety Bond Specialist

Darryl Bellamy

721 19th St., Suite 426

Denver, CO 80201-0660

Phone: 303/844-2607, ext.261

FAX: 303/844-5237

### SEATTLE AREA OFFICE

Supervisory Surety Bond Specialist

Thomas Ewbank

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Seattle, WA 98121

Phone: 206/553-0961

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**Geographic Territory:** Colorado, Connecticut, Delaware, District of Columbia, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, New Jersey, Ohio, South Dakota, Utah, Wyoming, North Dakota, Rhode Island, New Hampshire, New York, Pennsylvania, Puerto Rico, Vermont, Virgin Islands, Virginia, West Virginia and Wisconsin.

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