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The SBA 504 Loan Program: A Powerful Tool for Business Expansion

The SBA 504 Loan Program helps small business owners purchase real estate and other major fixed assets. Real estate purchased must be used by the owner for his primary business. This means the property must be 51% owner-used or owner-occupied to qualify. The exception is where real estate is the primary business, such as a gas station, hotel, or restaurant. Then, the business does not need to be owner-occupied. —primarily owner-occupied real estate and heavy equipment—at below-market rates.

Eligibility Requirements

- Operate as a for-profit U.S. business
- Have a tangible net worth under $20 million
- Have an average net income of less than $6.5 million after taxes for the previous two years
- Occupy at least 51% of the real estate being purchased (for existing buildings) or 60% initially for new construction, with plans to occupy 80% within 10 years
- Demonstrate ability to repay through solid business financials
- Maintain good credit history (typically a minimum credit score of 690)

Approved Real Estate Types

- Owner-occupied office buildings
- Manufacturing facilities and warehouses
- Hotels, motels, and assisted living facilities
- Medical or dental offices
- Retail centers (if primarily occupied by the borrower's business)
- Light industrial properties
- Restaurants or mixed-use spaces (with owner occupancy)

Note: Investment or rental-only real estate is not eligible unless your business occupies the majority of the space.

Owner's Down Payment: What You Need to Know

One of the biggest advantages of the SBA 504 program is its low down payment requirement. Typically, borrowers are required to contribute 10% of the total project cost. This is significantly lower than the 20%–30% often required by conventional commercial real estate loans.

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However, the required down payment can vary based on two key factors:
1. Startups (less than 2 years in operation): An additional 5%, totaling 15% down.
2. Special-Purpose or Single-Use Properties: An additional 5%, totaling 15% down.
3. Startup + Special-Purpose Property: Total down payment of 20%.

Acceptable sources for the down payment include:
- Business cash reserves
- Personal savings or liquid assets
- 401(k) business financing (ROBS)
- Investor equity contributions
- Seller-held subordinated notes (in some cases, counted as part of the down payment if structured properly)

Loan Structure

An SBA 504 loan is structured between three parties—the lender, the Certified Development Company (CDC), and the borrower—to finance fixed assets like commercial real estate or equipment. Typically, a bank provides **50%** of the total project cost and holds the first lien; this portion is **not guaranteed by the SBA**. The CDC, backed by the SBA, provides **40%** through the sale of SBA 504 debentures to investors, and this portion is **SBA-guaranteed** and secured by a second lien. The borrower contributes the remaining **10%** as an equity down payment, though startups or single-purpose properties may require **15–20%**. For example, on a $1,000,000 project, the bank funds $500,000, the CDC/SBA funds $400,000, and the borrower provides $100,000. This structure allows businesses to access long-term, fixed-rate financing—usually with total fees of about 2.5–3% on the SBA portion plus any broker fees around 1.5%—with typical loan terms of 10–25 years and interest rates in the 6–7.5% range.

What is a CDC (Certified Development Company)?

A Certified Development Company (CDC) is a nonprofit organization authorized and regulated by the U.S. Small Business Administration (SBA) to administer the 504 Loan

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Program. CDCs are community-based lenders that partner with banks and credit unions to provide long-term, fixed-rate financing to small businesses for major fixed assets. Their mission is to promote local economic development and job creation through responsible lending.

Here’s how a CDC fits into the loan structure:
- The CDC provides 40% of the total project cost, funded by a debenture backed by the SBA.
- The bank provides 50%, holding the first lien on the property.
- The borrower contributes 10% as a down payment.

CDCs also guide borrowers through the SBA approval process, help package the loan, and ensure compliance with SBA standards. Each CDC serves a specific region, allowing them to understand local markets and tailor financing to community needs.

Loan Structure and Terms

The SBA 504 loan involves three key parts:
1. Bank or Conventional Lender: 50% of the total project cost
2. Certified Development Company (CDC): 40% of the project cost, backed by the SBA
3. Borrower Down Payment: 10% of the project cost (may increase to 15–20% for startups or special-purpose properties)

Typical Terms:
- 10, 20, or 25-year amortization options
- Fixed interest rates on the SBA-backed portion
- No balloon payments

Typical Interest Rates (APR Range)

SBA 504 loans generally offer fixed APRs between 6.5% and 8.0%, depending on the term, project type, and current bond market rates. The bank portion may vary and can include a small spread above the Prime Rate.

Fees Involved in the SBA 504 Loan

Fee Type	Approximate Cost
SBA Guarantee Fee	0.5% of the SBA portion

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CDC Processing Fee	1.5% of SBA portion
Bank Participation Fee	1%
Third-Party Closing Costs	Varies ($3,000–$5,000)
Broker Fee	1.5%
Legal/Title Fees	Based on project size

These fees are typically financed into the loan, minimizing out-of-pocket costs for the borrower.

Conclusion

The SBA 504 loan program is an excellent choice for business owners seeking to build long-term stability and wealth through ownership of commercial real estate or major equipment. By offering low, fixed interest rates and extended repayment terms, it allows businesses to preserve cash flow and reinvest more money back into operations. The relatively low down payment—often just 10%—makes it easier to acquire property or expand without tying up excessive capital. Ultimately, the SBA 504 program empowers business owners to control their operating costs, build equity in their property, and create a strong foundation for future growth.