

Region D Development Corporation



Section 504 Loan Program

The section 504 Loan Program, under Title V of the Small Business Investment Act of 1958, was authorized by Congress in 1980 to assist communities in creating jobs and expanding the tax base at the local level by stimulating small business investment in plants and equipment. Under this program, long term loans for fixed assets can be made to eligible small businesses through Development Companies designated by the **US Small Business Administration**.

Region D Development Corporation, Inc.

The Region D Development Corporation, Inc. (RDDC) is a Certified Development Company for this program, and as such, it can assist small businesses operating in Alleghany, Ashe, Avery, Mitchell, Watauga, Wilkes, and Yancey Counties in securing financing under this program. High Country Council of Governments staffs the operation of the Region D Development Corporation.

504 Loan Structure

504 Loans are typically structured with the SBA providing 40% of the total project costs, a participating lender covering up to 50% of the total project costs, and the borrower contributing 10% of the project costs. Under certain circumstances, a borrower may be required to contribute up to 20% of the total project costs.

How 504 Loan Funds May Be Used

The use of proceeds from 504 Loans must be used for fixed assets (and certain soft costs), including:

- The purchase of existing buildings;
- The purchase of land and land improvements, including grading, street improvements, utilities, parking lots and landscaping;
- The construction of new facilities or modernizing, renovating or converting existing facilities;
- The purchase of long-term machinery ; or
- The refinancing of debt **in connection with** an expansion of the business through new or renovated facilities or equipment.

Note: *The 504 Program cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing (except for projects with an expansion component or that meet the temporary refinancing provisions of the Small Business Jobs Act of 2010).*

504 Loan Benefits for the Small Business

The 504 Loan Program offers small businesses both immediate and long-term benefits, so business owners can focus on growing their business. Some of the top-level benefits include:

- 90% financing;
- Longer loan amortizations, no balloon payments;
- Fixed-rate interest rates.

504 Loan Eligibility

To be eligible for a 504 Loan, your business must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, a business qualifies if it has a tangible net worth not more than \$15 million, and an average net income of \$5 million or less.

Loans cannot be made to businesses engaged in nonprofit, passive or speculative activities.

504 Loan Specifics

While there is no maximum project size, the maximum SBA loan amount (debenture) is \$5 million. Small manufacturers or specific types of energy projects may qualify for a \$5.5 million debenture. Generally, a business must create or retain one job for every \$65,000 guaranteed by the SBA. Small manufacturers must create or retain a ratio of one job for every \$100,000. As an alternative to job creation or retention, your business may qualify if it meets a community development or public policy goal as long as the CDC maintains its portfolio job average requirements. These include:

- Expanding exports;
- Expanding small businesses owned and controlled by women;
- Expanding small businesses owned and controlled by veterans (especially service-disabled veterans);
- Expanding minority business development;
- Aiding rural development;
- Increasing productivity and competitiveness (retooling, robotics, modernization, competition with imports);

504 Loan Example

Total 504 projects costs for a \$1,000,000 project may include the following:

- Building Purchase
- Land
- Renovation
- Furniture and Equipment
- Soft Costs
- TOTAL \$1,000,000

Loan Structure

- \$500,000, 1st lien with bank (loan obtained from a private sector lender covering up to 50% of the total project cost)
- \$400,000, 2nd lien with 504 loan, 20 year, fixed rate (loan obtained through a CDC, funded through an SBA-guaranteed debenture, covering up to 40% of the total project cost)
- \$100,000, borrower contribution (contribution from the borrower of at least 10% of the total project cost/)

Collateral

Generally, the project assets being financed are used as collateral. Personal guaranties from owners of 20% or more are also required.

Interest Rates and Fees

Interest rates on 504 Loans are correlated with the current market rate for 5-year and 10-year U.S. Treasury issues. Loan maturities of 10 and 20 years are available. Fees may be financed with the loan.

How To Apply

For more information on how to apply for assistance under the 504 Loan Program, call or email:

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