

SBA Certified Development Company/ 504 Loan Program

The Small Business Administration (SBA) helps small businesses and entrepreneurs obtain loans, build skills, and gain access to government contracts. Among other lenders, the SBA works with national banks and federal savings associations (collectively, banks) to provide loans to small businesses that might not otherwise obtain financing on reasonable terms.

This fact sheet highlights the SBA's Certified Development Company/504 Loan Program (504 loan program). This program and the 7(a) Loan Program are two of the SBA's flagship efforts to expand access to capital for small businesses. Together, they encourage banks and other lenders to help small businesses and entrepreneurs start and grow their businesses.

What Is the 504 Loan Program?

The 504 loan program offers banks a financing tool for eligible small businesses that are looking to create jobs or meet certain public policy goals. The program provides small businesses with long-term financing used to acquire and improve major fixed assets.

Under the program, a lender partners with a certified development company (CDC), a specialized SBA-certified nonprofit corporation, to finance an eligible small

business loan request. Each partner makes a loan to the qualifying small business. Typically, the lender's loan covers 50 percent of a project's cost and is secured by a first lien on the asset. The SBA does not provide a loan guarantee for the bank-funded portion of the financing.

The CDC's loan covers up to 40 percent of the project's cost and is secured by a second lien. The CDC loan is backed by a 100 percent SBA-guaranteed debenture. The borrower contributes equity of at least 10 percent of the project's cost.

The SBA limits a CDC's financing participation to 40 percent of the total project cost and a maximum of \$5 million for most businesses or \$5.5 million for small manufacturers or specific types of energy-efficient projects. The SBA does not have other limits on a project's size or the total loan amount that a bank and CDC can jointly finance under this program.

What Is a CDC?

A CDC is a nonprofit organization certified by the SBA to provide 504 loans to small businesses.

There are about 217 CDCs nationwide. Some offer only 504 loans, while others offer a range of additional programs to help

small businesses. The SBA certifies a CDC to operate statewide and could certify the CDC to offer the 504 loan product in contiguous states.

To find a CDC in your area, see the [SBA's list of CDCs](#).

How Do Banks Participate?

Banks are eligible third-party lenders in the 504 loan program. The SBA recommends that lenders interested in participating in the 504 loan program contact their local SBA district offices.

The bank and the CDC each underwrite the loan. The bank portion of the loan is evaluated against the bank's underwriting guidelines. The bank and the CDC may communicate during the underwriting period to discuss any concerns. While the terms and conditions on the bank and CDC loans may differ, they are coordinated by the bank and CDC to meet the needs of the borrower.

As part of the loan closing documents, lenders are required to execute a third-party lender certification confirming that 504 loan program requirements have been met.

Bank first-lien loans are salable on the secondary market, providing lenders greater liquidity.

The CDC portion of 504 financing provides permanent or take-out financing. A bank may provide an additional construction or bridge loan before project completion and the sale of the debenture. After the project is completed, the CDC closes the 504 loan. The proceeds from the debenture sale repay the interim lender for the amount of the 504 project costs that it advanced on an interim basis.

What Businesses and Uses Are Eligible?

This program is for eligible businesses that cannot obtain financing at reasonable terms without SBA participation.

The 504 loan program helps businesses purchase major assets, such as owner-occupied commercial real estate, long-term machinery, or equipment. Real estate financed by a 504 loan must be at least 51 percent owner-occupied for existing buildings and 60 percent owner-occupied for new construction.

To be eligible, a business must operate as a for-profit entity and meet SBA size requirements. A business qualifies if its tangible net worth is \$15 million or less and its average net income for the last two years prior to application is \$5 million or less after federal income taxes. Alternatively, a business may qualify if it meets the SBA 7(a) program size standards. Loans cannot be made to a business engaged in nonprofit, passive, or speculative activities. Additional restrictions may apply.

Generally, a business must create or retain one job for every \$75,000 guaranteed by the SBA debenture; for small manufacturers, the amount is \$120,000. In certain circumstances, a business may qualify without the job creation or retention requirement if it meets certain community development or public policy goals.

The loans must be used for fixed assets, such as the purchase and/or improvement of land, buildings, long-term machinery, and equipment. Loans cannot be used for working capital or inventory.

Existing debt may be refinanced, as explained in a later section of this fact sheet.

How Do 504 Loans Help Banks Meet Community Credit Needs?

Through the program, banks can offer long-term financing to small business customers that otherwise might not obtain the necessary financing to grow. The low down payment and fixed interest rate are particularly attractive to new and growing businesses.

Banks making permanent loans through the 504 program may qualify for Community Reinvestment Act (CRA) consideration. In most cases, loans of \$1 million or less qualify as small business loans and may be considered under the CRA lending test for banks of all sizes.¹ Intermediate small banks may choose to have small business loans of \$1 million or less, which meet the regulatory definition of community development, evaluated as community development loans.² Loans of greater than \$1 million made under the 504 loan program are considered community development loans³ under the lending test⁴ or the community development test,⁵ depending on the bank's size. For a 504 loan to qualify for CRA consideration as a community development loan, it must meet the geographic requirements in the regulation by serving a bank's assessment area or the broader statewide or regional area that includes a bank's assessment area.⁶

¹ See 12 CFR 25.12(v) and 195.12(v).

² See 81 Fed. Reg. 48506 and 48529 (Q&A __.12(h)-3).

³ 81 Fed. Reg. 48529 (__ .12(h)-1).

⁴ See 12 CFR 25.22 and 195.22 (large banks), and 12 CFR 25.26(b) and 195.26(b) (small banks).

⁵ See 12 CFR 25.26(c) and 195.26(c) (intermediate

small banks). Providing technical assistance on financial matters to a small business may qualify as a community development service. For example, banks may receive consideration for providing assistance to small businesses in preparing loan application packages for submission to local, state, or federal government agencies.⁷

Under What Circumstances Can Existing Loans Be Refinanced?

The 504 loan program offers eligible small business borrowers the ability to refinance existing debt with or without business expansion.

SBA 504 Debt Refinancing Program— Refinance Without Expansion

Eligible small businesses may be able to refinance certain qualifying existing debt⁸ under the SBA 504 Debt Refinancing Program. Loans made through this program are structured like traditional 504 loans. Borrowers can refinance up to 90 percent of the current appraised property value. The refinancing may also include a limited amount of eligible business expenses.

The business must have been in operation for at least two years before submitting the

small banks).

⁶ See 81 Fed. Reg. 48525, 48528, 48529, and 48530 (Q&A, __.12(g)-2, __.12(h)-1, __.12(h)-6, and __.12(h)-7).

⁷ See 12 CFR 25.12(i) and 195.12(i); see also 81 Fed. Reg. 48526 and 48530 (Q&A, __.12(g)(3)-1 and __.12(i)-1).

⁸ SBA Policy Notice 5000-1382 (May 26, 2016).

application.⁹ The debt to be refinanced must be a commercial loan that

- was incurred for the benefit of the small business concern not less than two years before the date of the 504 Debt Refinancing application.
- was used to acquire a 504-eligible fixed asset (i.e., owner-occupied real estate, land, equipment, etc.).
- is secured by 504-eligible fixed assets.
- has been current on all payments for at least the last 12 months before the application.

Existing 504 projects and government-guaranteed loans are not eligible to be refinanced.

Refinance With Business Expansion

An eligible small business planning an expansion may refinance existing eligible debt. A business expansion includes acquisition, construction, or improvement of land, buildings, or equipment for use by the small business.

The existing debt being refinanced must have been used to purchase assets eligible for financing under the 504 loan program, must be collateralized by 504-eligible fixed assets, and must have been incurred for the benefit of the small business.

The existing debt being refinanced cannot exceed 50 percent of the cost of expansion. The debt being refinanced plus the expansion cost equal the project cost, so the amount being refinanced must be one-third or less of the project's total cost.¹⁰

⁹ If the ownership of the borrower has changed during this two-year period, the CDC must follow the new business guidance in the SBA's Standard Operating Procedure 50 10 5(H), determine whether the borrower is considered a new business, and

The new financing must provide a substantial benefit to the business after taking into account prepayment penalties, financing fees, and other financing costs. The terms or interest rate must be more favorable to the borrower than those of the existing indebtedness. Finally, as with the standard 504 loan, the business must create or retain a job for every \$75,000 guaranteed in the debenture by the SBA (\$120,000 per job for small manufacturers).

For More Information

- [SBA CDC/504 Loan Program](#)
- [SBA Standard Operating Procedures](#)
- [SBA 7\(a\) Loan Program](#)
- *OCC Community Developments Insights*, "SBA's Certified Development Company/504 Loan Program: Small Businesses' Window to Wall Street"
- *OCC Small Business Resource Directory*
- [OCC district community affairs officers' contact information](#)

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document the justification for its determination in its credit memorandum. SBA Policy Notice 5000-1939.

¹⁰ See 13 CFR 120.882(e).