

SBA 504 Loan Program Highlights For Petroleum Properties And Businesses

The 504 program allows small and medium-size businesses to obtain long term, fixed-rate financing at below market rates for up to 20 years. The SBA-guaranteed debentures are pooled monthly and sold to private investors.

Projects are financed per the following structure:

A private lending institution covers 50 percent of the project cost.

A Certified Development Company (CDC) finances 40% (not to exceed \$1,000,000) through SBA

The small business must invest at least 10% (15% for special purpose facility/20% for special purpose and start-up businesses)

Types of Financing

Acquisition (Land and Buildings)

New Construction or Renovation

Leasehold improvements

Machinery and Equipment

Loan Amounts

\$750,000-\$2,000,000

Terms

20 Years Real Estate

10 Years Machinery and Equipment

Interest Rate:

Prime + .5% - 2.75% variable from primary lender (Varies by credit risk)

CDC Rates typically **fixed** at less than Prime rates

Loan To Value:

70 - 80% (Gas stations/C-stores considered special use facility and usually have a maximum of 80% financing)

Prepayment Penalties:

There is a ten year pre-pay penalty. 10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%, 1%

Fees:

None to minimal lender fees

Packaging fee/good faith deposit

Customary closing costs

Construction fee, if applicable, to offset monitoring costs

SBA charges a fee of approximately 3% (depending on loan amount and percentage of guarantee)

Eligibility:

Owner occupied small business
US Citizen or resident alien
Good credit/character
Management experience
Reasonable financial statement or credible projections
Business must meet SBA size standards

Collateral:

First lien on land, building, equipment and inventory. Personal guaranties of the principal owners are also required.
Additional outside collateral is necessary if lease-hold improvements are substantial.

Quick Response

Loan decision made within 4 weeks of receipt of completed application.

SBA 504 financing is a superior long term **fixed rate** financing option. 504 loans are normally done on larger projects. If you do not feel you would be owning the property for a longer period of time, SBA's 7(a) loan program or perhaps conventional financing would be a better alternative because of the 504's longer pre-pay penalty period. The longer pre-pay penalty is to offset the significantly lower rates offered in a bond debenture done by the CDC. Working capital and inventory are ineligible costs but sometimes can be done with a 7 (a) concurrently. Refinances are also ineligible