

HOW DOES THE SBA 504 PROGRAM WORK?

By Ashley Heaton, Vice President, The 504 Company

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Mortgage rates as low as 4.83% fixed for 20 years! The 504 Program is one of the best economic development financing tools available to small businesses. A program offered through the U.S. Small Business Administration (SBA) and processed through Certified Development Company (CDC) intermediaries, the 504 Program provides up to 90% loan-to-value, long term, fixed rate financing for owner-occupied real estate and equipment purchases.

Here is how it works: A growing small business is interested in acquiring and renovating a property to relocate from leased to owned space and seeks financing for the project. The 504 Company partners with a bank to provide a 90% loan-to-value mortgage which entails a 50% bank first mortgage (bank determines rate) and 40% 504-second mortgage with a 20 year term, 20 year amortization and a current rate of 4.83% fixed. The business owner benefits from the 504 program in several ways: preserving cash for operations (10% down instead of 20% required for a conventional bank mortgage), locking in 40% of the loan for a 20 year fixed interest rate in a rising rate environment, and the ability to include soft costs into the project. Eligible soft costs include, but are not limited to, appraisal, environmental, architect/engineering fees, borrower's legal fees, title fees, and transfer tax. The 504 program can also finance construction, renovations, and equipment purchases. Additionally by partnering with The 504 Company, the bank is in a stronger collateral position which typically allows more flexibility for approval on difficult transactions.

The 504 second mortgage can go as high as \$5.5 million and the loan application is processed quickly and professionally. The 504 Company is one of the largest CDC's in the United States and operates in New York, New Jersey and Pennsylvania.

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