

## A Development Loan That Can Make A Big Difference For A Small Business

(NAPSA)—There's good news for small businesses looking for financing for expansion or modernization. A particular type of loan that has played a part in the Small Business Administration's (SBA) community development efforts is also playing a role in the Obama administration's Recovery and Reinvestment Act of 2009.

The part of the act that is administered by the SBA is intended to encourage borrowing and lending for small business and start-ups and provide small businesses with access to capital.

One way the SBA is doing this is through its 504 Community Development Loan Program. The program is a long-term financing tool for economic development within a community. It provides small businesses requiring "brick and mortar" financing with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization.

### How Funds May Be Used

Proceeds from 504 loans must be used for:

- Purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots and landscaping
- Construction of new facilities or modernizing, renovating or converting existing facilities
- Purchasing long-term machinery and equipment.

The 504 Program cannot be used for working capital or inventory, consolidating or repaying debt or refinancing.



**The 504 Community Development Loan Program is a long-term financing tool for economic development within a community.**

### What Is Involved?

Typically, a 504 project includes:

- A first mortgage or lien, which is made by a private commercial lender for 50 percent of the total project and does not come with a government guarantee
- A second mortgage or lien, which is made by a CDC for 40 percent of the total project and guaranteed fully by the SBA
- Borrower equity for the remaining 10 percent of the total project.

A CDC (Certified Development Company) is a private, nonprofit corporation set up to contribute to the economic development of its community. CDCs work with the SBA and private-sector lenders to provide financing to small businesses.

For example, in Portland, Ore., Pete Morones, a clinical psychologist, used a 504 loan, partnering with the bank and a CDC, to purchase a building for his practice.

### Who Is Eligible?

To be eligible for a CDC/504 loan, the business must be operated for profit and fall within the size standards set by the SBA.

Under the 504 Program, the business qualifies as small if it does not have a tangible net worth in excess of \$7.5 million and does not have an average net income in excess of \$2.5 million after taxes for the preceding two years. Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

### 504 Loans and the Recovery Act

In order to fulfill the act's objectives of getting credit moving again and aiding small business, SBA has eliminated several fees associated with the agency's section 504 Development Company Program.

It will also provide fresh liquidity to the 504 first-mortgage market and expand existing long-term projects by working with CDCs to refinance and restructure certain SBA-backed 504 loans.

All these initiatives are consistent with the 2009 Recovery Act's mission of helping small business start, grow and succeed.

To learn more about the role of the SBA in the Recovery Act, visit [sba.gov](http://sba.gov) or call (800) U-ASK-SBA. To learn more about the Recovery Act, visit [recovery.gov](http://recovery.gov).



**Note to Editors:** This is the third in a series of 11 articles from the Small Business Administration on Recovery Act initiatives and how small business can get the help it needs to survive and thrive.