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UNDERSTANDING THE SBA 504 LOAN PROGRAM: A POWERFUL TOOL FOR SMALL BUSINESS GROWTH

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The U.S. Small Business Administration (SBA) 504 Loan Program is a vital resource designed to help small businesses access the capital they need to grow and thrive. Through a unique partnership between the SBA, Certified Development Companies (CDCs), and private lenders, the program provides long-term, fixed-rate financing for major fixed assets, such as real estate and equipment.

How the SBA 504 Program Works

The SBA 504 program is structured as a partnership between three key parties:

1. **The Bank or Private Lender:** Provides 50% of the project cost as a first-lien loan.
2. **The CDC:** A nonprofit organization authorized by the SBA, finances up to 40% of the project cost through a second-lien loan, supported by an SBA guarantee.
3. **The Borrower:** Contributes at least 10% of the project cost as a down payment.

This collaborative approach minimizes risk for lenders while enabling small businesses to obtain financing with lower down payments and competitive interest rates.

Key Benefits of the SBA 504 Program

- **Affordable Capital:** Fixed interest rates for 10, 20, or 25 years provide stability for borrowers.
- **Lower Down Payments:** Small business owners retain more working capital, as only 10-20% of the total project cost is required upfront.
- **Focus on Economic Growth:** By encouraging business expansion and job creation, the program promotes local economic development.

Maximum Loan Amounts

The SBA 504 program supports significant projects with high financing needs. The CDC portion of the loan typically has a maximum limit of **\$5 million** per project, though it can go up to **\$5.5 million** for specific energy-efficient or manufacturing projects. When combined with the private lender portion, total project costs can exceed \$20 million, making this program an excellent choice for large-scale investments.

What the SBA 504 Program Funds

The program supports investments in long-term fixed assets, including:

- Purchasing or renovating commercial real estate.
- Acquiring machinery or equipment with a useful life of 10 years or more.

Partnering with Banks for Success

The SBA 504 program exemplifies how public-private partnerships can meet the financing needs of small businesses. Banks benefit by mitigating risk through CDC participation, while borrowers gain access to affordable and flexible financing options. This partnership makes it possible for businesses to grow, create jobs, and contribute to their local communities.

If you are interested in learning more about how our firm can assist small business clients in navigating the SBA 504 program, please contact Tom Hofstetter at TLH@spsk.com.

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