

SBA 504 Loan Fact Sheet for Marinas & Boatyards

By Larry Innis

While searching government agencies for possible stimulus-fund assistance or government-backed loans, we've discovered one of the best possibilities in the 504 program designed by U.S. Congress and managed by the federal Small Business Administration and the National Association of Development Companies (www.nadco.org) to finance expansion. Coming up with a 20% (or more) down payment knocks many small businesses out of the running for expansion financing for capital acquisition. But, there is another way. If your business is healthy and expansion plans call for investing in and using real estate or equipment, you may qualify for 90% financing through the SBA 504 loan program. You cannot use SBA 504 loans for rolling stock.

The 504 Loan Program offers the following advantages:

- Low down payment—You conserve valuable operating capital.
- Competitive, fixed interest rate—No future interest rate fluctuations.
- Long term—Brings debt service in line with the cash flow generated by the asset.

How It Works. An SBA loan is a partnership between a Certified Development Company (CDC), the SBA, and a lender. CDCs are economic-development organizations that have been certified by the SBA to make loans under the CDC Economic Loan Program. Working with a lender, the CDC provides up to 40% of the financing for commercial real estate purchases and new construction with the 504 loan. A lender must partner with the CDC to typically provide 50% for the financing while the entrepreneur ends up paying as little as 10% down.

The CDC works with the small business borrower to process, approve, close, and service the SBA 504 loan. Funding is provided when the CDC issues a 10- or 20-year debenture bond that is sold to investors on Wall Street and gives entrepreneurs access to capital at low fixed interest rates, usually available only to large corporations. Debenture bonds are also attractive to investors since they are backed by the SBA and fully guaranteed by the U.S. Treasury.

How Big Is Your Project? Most growing businesses add staff as they expand and look for larger facilities. For example, SBA 504 loans have been used already to finance marinas dock expansions. Job creation is the key when it comes to the size of an SBA 504 loan. A small business owner must create or retain jobs, or meet a public policy or community development goal (i.e., minority, veteran, or women-owned business) to qualify for an SBA 504 loan. In general, an entrepreneur can borrow \$50,000 on SBA 504 loan funding for each job created and retained within two years.

There is no limit on the total project cost, but a CDC can lend up to 40% of the project cost with a dollar cap of \$1,500,000 depending on the type of project. CDCs can go as

high as \$2,000,000 of SBA financing for public policy or community development projects and up to \$4,000,000 for eligible manufacturing projects.

The Nuts and Bolts. SBA 504 loans are for terms of 10 or 20 years. The interest rate for the loan is fixed when the SBA sells the debenture bond to fund the loan.

The small business owner's payment includes a loan loss subsidy fee and program fee that are rolled into the monthly payment. It is my understanding, however, that as long as federal stimulus funding is available, these fees will be waived to the small business owner. There are no balloon payments with the fully amortized loans.

How to Begin. First, contact a CDC and speak with a loan officer to review and evaluate your project and your small business. See how the CDC loan officer can structure the financing to meet your unique requirements. If you do not know a CDC in your area, contact www.nadco.org and click on **Members Directory** for a listing of CDCs in your state.

Next, contact your bank to see if they would like to participate by providing the permanent first mortgage and the interim construction loans for your project. Your bank will probably have an SBA or government-guaranteed lending advisor who already works with the CDC in your area for SBA 504 loans.

The next steps include submitting your application for an SBA 504 loan, receiving approval, and beginning your project.

Since 1980, over 105,000 SBA 504 loans have been approved nationwide, representing financing of over \$50 billion and resulting in the creation or retention of over 2 million jobs.