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This month I'll continue the discussion on financing programs. Last month I covered the SBA 7(a) loan program. This month I'll discuss another SBA loan program referred to as the 504 loan. The 504 is intended to provide financing for the purchase of land, building, building renovation and long-term fixed assets only. With this loan up to 40% comes from an organization referred to as a Certified Development Company (CDC), 50% comes from a lending institution and a minimum of 10% comes from the owners. The CDC is a non-profit company certified by the SBA to lend funds 100% guaranteed by the SBA. The CDC portion, in general, maxes at \$1,500,000 but can go as high \$2,000,000 in some instances or as high as \$4,000,000 for qualifying small manufacturing facilities.

Here in Utah, we have two CDC's serving the area, Utah CDC (<http://www.utahcdc.com>) and Mountain West Small Business Finance (<http://www.mwsbf.com>). These companies obtain the monies they lend through the sale of either ten or twenty year bonds. Generally the bond market runs at a lower percentage of interest than the prime interest rate, meaning that your business can receive the CDC portion of the financing at a lower fixed rate interest than the 7 (a) loan program would have available. Current rates are running slightly less than 7%.

With the 504 loan, the minimum investment from the owners is 10%, cash. An additional 5% is required for a start-up business and another 5% is added on for a "special purpose building." The investment must be cash applied towards the actual purchase or construction costs. A higher appraisal value upon completion than costs incurred is not considered a cash investment. Sweat equity can, at times, be considered cash, but it has to be a verified value and significant in nature.

The lending institution gets first position on the

land, building and equipment to collateralize the loan. As the bank's portion of the total financing is only 50%, this first position puts them in a very secure position for recovering their investment should the loan go into default. The SBA will take second position and any third party involved will, of course, be in last position. Personal guarantees will also be required.

Eligibility is similar to the 7(a) program in that the business must be for-profit and classified as small. Ineligible businesses include rental properties, investment properties, gambling, amusement parks and a few others. See the SBA or CDC websites for additional details.

This loan program is tied to community economic development, so loan proceeds are tied to employment measures or community improvements. This is a great loan program that offers a better interest rate and lower down payment than may be possible with other loans. To access this loan program, contact your financial institution and inquire about the SBA 504 loan or contact the CDC of your choice.

We frequently hear about businesses coming into the community that have received incentives and community loans. These



programs do exist to a certain extent, but it is important to understand what they are all about.

I am familiar with a loan program offered by Ogden City and one offered by Davis County. There may be other small programs that I do not have details on.

The Davis County loan program is available to

provide gap financing for existing businesses located in Davis County. Most of the financing must still be obtained through traditional lenders.

The Ogden City loan program maxes at \$90,000 and is restricted to the downtown area, primarily 25th Street and Washington Blvd. Ogden City can also do a guarantee on a bank loan up to \$250,000.

While these loans can offer some flexibility, it is important to understand that they are loans with interest rates attached and they must be repaid. They are not grants. Collateral and guarantees are also required. Both of these loans are tied to community development such as new jobs, job retention or business district revitalization. Find out more for Davis County at:

http://www.co.davis.ut.us/discoverdavis/incentives/revolving_loan_fund.cfm or Ogden City at: <http://www.ogdencity.com/busdev.smallbus.html>

Incentives are a whole different deal and are generally only offered to existing businesses that are moving into the area and bringing a lot of new employment and increased tax revenues to the community. A recent example is Proctor and Gamble coming to Box Elder County. Incentives are not generally up-front money; they are a reduction of taxes for the business in the future based on the economic return that the community will enjoy by having the business locate here. If certain goals are not met by the business, the reduction will not be allowed.

As usual, I am only able to give an overview of these programs; specific details need to be established by the lender or agency. Feel free to contact me with questions.

