



SBA 504 LOAN PROGRAM

Fixed Asset Financing For Growing Businesses

WHAT'S A "NEW" BUSINESS?

As we emphasize, new businesses **must inject an additional 5 percent into their 504 project**. However, for SBA purposes, "new" might not mean exactly what you think it does.

One of the funniest conversations we ever had on the topic was with an entrepreneur who wanted to purchase a 100-year-old business. He had never owned this kind of business before; in fact, he had never owned any kind of business. To say the least, he got a bit annoyed when we told him that we would have to treat the project as a new business, despite the age of the enterprise.

Why was this 100-year-old business "new" by SBA standards? **The key for making this determination** on a 504 project is not the age of the business – it's the experience history of the owners. Generally, we can count a project as "existing" if the owners of the business have had **two years of experience owning a comparable business**.

Consequently, if an entrepreneur owns one auto repair shop, and wants funding to build a new one across town, we can probably qualify that new project with a lower downpayment, because of the owner's experience. To get a sense of how we might decide this issue, let's take a look at the case of a woman who wants to open a new restaurant.

There are a few key points we consider in making the "existing" determination:

1. The SBA generally requires that the ownership history be continuous and lasting up to the time of our project. If she currently owns a similar restaurant, we can likely count her as experienced. If she did own one but sold it 3 years ago, she would probably be considered new by SBA standards.
2. The business must be considered similar in nature and demographics. If your customer owns a fast-food place and wants to open a second location of the same concept, she would probably count as experienced. But if she wants to open a gourmet restaurant, that's a pretty different concept – and so we would probably need the extra 5% for new business.
3. In some cases, we can count management experience as being comparable to ownership. For instance, if your customer has had major management experience (ideally including operational management) in a fast-food chain, and is now planning to open her first franchise location, we might be able to credit her as being experienced because of her work history.

In sum, there are many variations on what is a "new" versus an "experienced" business. Please contact your Self-Help loan officer and we can help determine how we should set the downpayment for a particular project.

Contact a Self-Help 504 loan officer near you for details:

Charlotte NC Region:

Dale Harrold or Ralph Ansell
(800) 394-7428
(704) 409-5914 or Ext. 5915

Sandhills NC Region:

Allen Cofiori, Fayetteville
(800) 774-7966 (910) 354-1015

Northeastern NC Region:

Gerry Blood, Greenville
(800) 893-9669 (252)752-2203

Southeastern NC Region:

Louis Rogers, Wilmington
(877) 559-4284 (910) 442-1021

Triad NC Region:

Anna Tefft
Greensboro & Winston-Salem
(800) 269-7426 (336) 478-2611

Triangle NC Region:

Joe Osowski, Durham
(800) 476-7428 (919) 956-4493

Western NC Region:

Tom Byers, Asheville
(800) 229-7428 (828) 253-2813



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