



# SBA 504 LOAN PROGRAM

Fixed Asset Financing For Growing Businesses

## Frequently Asked Questions

**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

### **What are the collateral requirements with a 504 loan?**

Typically, the SBA takes only a second lien position on the assets being financed. But the SBA requests additional collateral when the estimated value of the financed assets is seen as too low to protect the SBA's loan position. Since the SBA offers a taxpayer-backed guarantee on 504 loans, the additional collateral helps protect the public interest. It may include a mortgage on owners' homes, other real estate they own, or assets of the business outside the 504 project.

Projects usually requiring outside collateral: 1) Deals with lots of equipment that won't retain its value, weakening the SBA's position 2) Real estate projects with special-use facilities, like car washes or miniature golf courses, which have low resale value if the business fails.

### **Who needs to provide a personal guarantee on a 504 loan?**

Anyone who owns 20% or more of a business receiving a 504 loan must provide an unlimited personal guarantee. Virtually no exceptions exist. Consequently, a borrower should expect to provide a personal guarantee. In some cases, if the SBA feels it needs an additional personal guarantee to secure its position, the SBA may also require an owner with less than 20% ownership to guarantee. If the business has partners with small interests, the borrower may need them to provide personal guarantees, too.

### **Do I have to make my 504 loan payments using automatic electronic transfers of funds?**

Yes. To reduce costs and streamline the program, every 504 loan customer makes payments via an ACH transfer of funds on or near the month's first business day. Through the ACH transfer, the SBA's servicing agent electronically deducts the monthly payment from the checking account of the borrower's choice. There are no bills or receipts, and the transfers take place automatically. Making 504 loan payments by check is not an option.

### **Is there a prepayment penalty with a 504 loan?**

For the first half of a 504 loan's term, there is a prepayment penalty. The penalty is high in the early days of the loan and decreases over time (talk to a loan officer for more details). Unfortunately, we cannot refinance a 504 loan with a new 504 loan.

### **What are the legal fees for a 504 loan?**

The SBA requests that we employ an attorney to oversee the 504 loan closing process and that the borrower employs a different attorney to follow our attorney's instructions. The borrower must pay both attorneys. We finance some of these fees as part of the 504 loan, but a portion of the legal fees are the borrower's out-of-pocket expense. We minimize the work, and thus the borrower's legal fees, as much as possible.

### **How much do I have to invest in this project?**

The 504 program's "typical" down-payment requirement for borrowers is 10% on the assets being financed. However, the SBA requires higher down payments for both start-up businesses and businesses operating in special-purpose properties (like car washes). For these projects, the SBA requires a 15-20% down payment.

Also, to qualify for the 10% down payment, the SBA wants the business's finances to be healthy. "Healthy" usually means the business's net worth is at least 25% of its overall assets once the new assets are added to an existing balance sheet. This means the business must have owners' investment, or retained earnings, beyond the assets being financed through the program.



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504Loans@Self-Help.org (800) 476-7428