



SBA 504 LOAN PROGRAM

Fixed Asset Financing For Growing Businesses

504 Project Structuring: Common Questions

Contact a Self-Help 504 loan officer n

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What downpayment is required on the project?

- ✓ 10% of project cost is defined minimum equity investment
- ✓ 5% extra for “special-purpose” property
- ✓ 5% extra for “new” business

Is the project “special-purpose” in nature?

- ✓ Main definition: Can the property be used for multiple purposes?
- ✓ Car wash is invariably special purpose
- ✓ Generally, appraiser can determine

What is a “new” business?

- ✓ Key criterion is ownership experience of owner, not life of financed business
- ✓ Experienced owners can get lower downpayment if starting a new business unit in a field in which he/she has ownership experience
- ✓ Inexperienced owners require higher downpayment, even if acquiring existing business
- ✓ People with strong management experience may qualify for lower downpayment when starting a new business – if they had P&L responsibility over a comparable business

How many jobs can the business create?

- ✓ Standard: 1 job within first 2 years of completion for every \$50,000 of SBA financing
- ✓ Waivers exist for public policy goals: minority-owned, women-owned, veteran-owned, and rural locations are major qualifiers
- ✓ Self-Help can help structure a deal to address these concerns – let us help you attempt to qualify the project before you conclude it won’t meet the standard

Are there businesses that are too big for 504 standards?

- ✓ Maximum net worth of owner business holdings is less than equal to \$7.5 million
- ✓ Average net profit after taxes for these holdings is less than equal to \$2.5 million
- ✓ Owner liquid assets after downpayment is less than equal to the size of larger projects

Are there businesses that are ineligible for 504 financing?

- ✓ Standard SBA exceptions: finance companies, speculative mining, etc. – prohibited list is small and not very common
- ✓ Some franchise businesses are ineligible because they are too controlled by corporate parent – common among insurance agents, real-estate agents and financial advisors
- ✓ We can research issues and let you know if there is an eligibility problem

Can owner lease out part of the building?

- ✓ If acquiring existing building, owner can lease out up to 51% of property
- ✓ If building new building, owner must occupy 60% at completion; can lease out additional 20% for 5 years, but then intend to occupy that space; can lease out up to 20% forever