

504 Business Loans —A Unique Lending Alternative

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The Small Business Administration 504 loan program is a great way for your credit union to offer small business members a smart financing option for the acquisition of fixed assets at competitive interest rates and terms. The program offers many advantages over conventional financing for the borrower and excellent benefits for your credit union.

Typically, a 504 project includes three components:

- A loan secured with a first mortgage from the credit union covering up to 50 percent of the project cost;
- A loan secured with a second mortgage from a Community Development Corporation (CDC), which is backed by a 100 percent SBA-guaranteed debenture, covering up to 40 percent of the cost; and
- A contribution of at least 10 percent equity from the small business being helped.

The 504 loan places credit unions in an excellent collateral position with a first mortgage at a 50 percent loan-to-value. It also allows credit unions to offer larger loans to one member and up to 90 percent financing to compete with other lending institutions – expanding the business loan portfolio while preserving the portfolio cap.

Unlike the traditional 7(a) loan program, this program allows your credit union to make credit decisions with its own loan documentation and set its own rates and fees giving you more control.

It's definitely a win-win for everyone involved. The 504 loan program is something that all credit unions with small business members should take advantage of.

How Does it Work?

- MBS will review applications from your credit union to help identify good 504 candidates and make the referral to the local CDC.
- MBS will underwrite the loan, and with your credit union's permission, forward a copy of the package to the CDC.
- The CDC will typically conduct a joint call on the prospective borrower with the credit union to discuss the program in greater detail.
- If all parties agree to move forward, the CDC will complete all of the SBA-specific paperwork.
- The CDC will package the second mortgage at 40 percent of the project, submit the loan to the SBA for approval and prepare all of the necessary paperwork for the second mortgage.

• MBS will coordinate the closing with the CDC and your credit union, preparing the paperwork for the 50 percent that your credit union retains. MBS can further reduce expense for the credit union by using a CDC-approved closing attorney for both loans.

• CDC services the second mortgage for the life of the credit and in most cases the CDC has to do an annual review on the loan and can share the review with your credit union, this saves you the trouble and expense of performing your own annual review on the loan.

Any credit union with a business loan program can participate in the 504 program; your credit union does not need to be SBA approved.

For more information on how your credit union can take advantage of the 504 loan program, contact MBS at (866) 6272-7881.



“Our member had signed a contract to purchase a new 3,994 square foot office condominium for his financial consulting company. After submitting the initial loan application to MBS we determined that we would not be

able to do the loan as the member requested. Jim Gallagher at MBS directed us to the 504 loan. Jim found an economic development company to work with and guided us throughout the process. If it had not been for MBS we would have lost this member.”

—David Marovich, Florida Telco CU