

A Boost for Facilities Procurement

In March, the Small Business Administration announced that Congress and President George W. Bush extended the reauthorization of the 504 Loan Program—a fixed-asset financing program designed to help create jobs by providing funds for small businesses. While the financing can be applied to a number of projects, companies often use it for real estate purchases or improvements so to expand or modernize their businesses. These loans allow companies to acquire a property with as little as a 10% down payment, much less than they would usually need for a conventional loan as well as fixed-rate financing.

Assembling a 504 loan for a small business is a collaborative effort requiring the participation of an attorney [preferably a specialist in SBA loan programs], an accountant, a bank serving small businesses and a certified development company. Real estate professionals in New York, looking to assist their small business clients, can access this program by working with one of three development companies: the Empire State Development Corp., the Long Island Development Corp. and the Bronx Initiative Corp., which are certified by the SBA.

“We work with a number of commercial real estate brokers and other professionals who have helped their clients find the perfect property, but cannot close the deal because the clients cannot come up with the 20% or 30% down payment required by many financial institutions,” says Roz Goldmacher, president and CEO of the Long Island Development Corp. “The irony is that many brokers and their clients who could benefit from this program don’t even know it exists. Last year, significant funds were actually left on the table while small businesses struggled through one of the most difficult economic climates in recent history.”

Most often, 504 loans are structured as follows: 40% from the development company—secured by a junior lien on the asset and 50% from a private sector lender. The SBA loan is funded by a prearranged sale of a bond issued by the certified development company and guaranteed by the SBA. On average, the sale occurs about 45 days after the closing, requiring an interim loan to bridge the gap. Usually, the senior lender participating in the deal provides the interim loan.

Recently, the LIDC helped put together a deal for a 65-year-old family-owned manufacturing firm. The company’s expansion prompted it to search for new facilities, and although they found a building, it needed considerable renovation. In this case, the loan was structured to cover the new facility and the renovation, thus allowing the company to keep needed cash on hand instead of using working capital for the expansion.

“Because the 504 Loan Program is aimed at specific economic development goals, such as job creation, the borrow-

er’s team, the lawyers, accountants and bankers must know of these programs to put together an effective application and develop an appropriate loan,” says Madeline Marquez, executive director of the Bronx Initiative Corp.

The borrower must have a tangible net worth of less than \$7.5 million and net profit after taxes of less than \$2.5 million. Generally, a business must create or retain one job for every \$50,000 provided by the SBA. The borrower must occupy 51% of the property, or 60%, in the case of new construction.

And, two companies can join forces to build and share a facility under the 504 program. The two companies usually form a joint real estate holding company—responsible for signing the note and mortgage—while the operating companies sign guarantees.

Once the team is in place, and the application is filed with a certified development company—the loans can be turned around very quickly. Processing time can be as little as 45 days and usually doesn’t require more than 60 days from application to approval. The certified development company is to analyze each project to determine which of the public policy goals set by the SBA will be met by providing a loan to a particular business. Some of the policy goals identified by the SBA include the expansion of exports, enhanced economic competition and expansion of women, minority, or veteran-owned businesses. However, it is important to note: these policy goals are not requirements for eligibility. The only requirements are those financial and job creation requirements.

Without adequate facilities, many small businesses cannot put their growth plans into action. Therefore, real estate professionals working with small businesses should familiarize themselves with the 504 program so they can help their clients secure the facilities they need to grow and thrive. —RENY

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Real estate professionals working with small businesses should familiarize themselves with the 504 program, so they can help their clients secure the right facilities.