

# The CDC 504 Loan Program

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South Central Illinois Regional Planning  
and Development Commission



The 504-loan program helps qualifying small for-profit businesses in accessing more attractive and suitable **take-out financing** while indirectly helping local officials meet their **economic development** objectives centering upon:

- attracting new **private sector investment** which build the **local tax base**;
- fostering the **revitalization** of key areas such as declining business districts and/or industrial or business parks, etc.;
- increasing the **productivity and competitiveness** of local employers so they can remain in business during difficult times; and
- addressing **other business financing needs** brought about by federally-mandated regulations or budget cutbacks, etc.

The **South Central Illinois Regional Planning & Development Commission** is an SBA-sanctioned **Certified Development Company** or CDC, authorized to package loans under the program statewide, but has obtained its certification primarily to deliver services to Clay, Effingham, Fayette, Jasper and Marion County, Illinois. The CDC is a non-profit regional organization with the proven staff experience to foster economic development at the local/regional levels that works cooperatively with both the Small Business Administration (SBA) and local lending institutions to provide fixed-asset financing for creditworthy small businesses. All CDC-504 Loans must be conducted in partnership with a bank.

Benefits of the CDC-504 Loan program include;

- **low down payment** financing for existing, financially strong firms;
- **long-term repayment schedules** that match the assets (**10 or 20 years**);
- **competitively-priced interest rates** for small business borrowers;
- **fixed interest rates** (*at a time when bank rates fluctuate*); and
- **subordinated financing** to lower the risk of the participating bank.

## Loan Structure

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The CDC-504 loan provides a portion of the overall project financing based upon the following formula:

- **For Established Healthy Firms** – 40% (Bank provides 50%, Borrower Equity is 10%);
- **For New Businesses OR Specialized Assets** – 35% (Bank provides 50%, Borrower Equity is 15%);
- **For New Businesses AND Specialized Assets** – 30% (bank provides 50%, Borrower Equity is 20%)



The CDC-504 loan maximum funding limits are as follows:

- **Standard Project** – provides \$65,000 for every job created/retained; maximum loan of \$5,000,000.
- **National Policy Project** – provides \$65,000 for every job created/retained; maximum loan of \$5,000,000.
- **Manufacturing Project** – provides \$100,000 per job created/retained; maximum loan of \$5,000,000.
- **Green Manufacturing Project** – provides \$100,000 per job; maximum loan of \$5,500,000.

## Eligibility

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For-profit businesses located and operating in the United States are eligible for the CDC-504 Loan program. The applicant business must be the operating company and demonstrate a need for, and ability to repay, the CDC-504 Loan. The borrower must also have a net worth of \$15 million or less and an after-tax profit of \$5 million or less (averaged over the last two years) in order to be considered a small business. As an alternative, the borrower can use SBA's separate size standards for the Section 7(a) loan guarantee program (based upon number of employees).

**Ineligible Businesses:** Private restrictive clubs and speculative real estate investments (i.e., retail strip malls); businesses primarily engaged in lending (i.e. banks, credit unions, finance companies); insurance companies, although independent insurance agencies are eligible; offshore facilities; businesses that derive a significant portion of their revenue from speculative operations (i.e. commodity traders); lobbyists; and businesses with more than 1/3 revenue from legal gambling. Other uncommon businesses may also fall into this category.

**Eligible CDC-504 Project Costs:** acquiring land for the project (by purchase or long-term lease);

- undertaking essential on-site improvements;
- acquiring one or more existing buildings (60% / 20% / 20% occupancy)
- converting, renovating or expanding existing buildings;
- constructing a new building for the project's implementation;
- acquiring and installing long-term machinery and equipment (with a useful economic life of 10 years or more) to be used at the project site;
- acquiring and installing shorter-term machinery, furniture, fixtures and equipment, provided it is essential to the project and represents a fairly minor part (25% or less) of the overall financing request;
- legitimate project costs incurred by the borrower in anticipation of requesting 504 assistance (if incurred within the last 9 months);
- securing professional services essential to the project (e.g., title insurance, architectural and engineering fees, accounting services, real estate and equipment appraisals, environmental site audits and legal fees, etc.); and
- interim construction period bank interest charges and a reasonable construction contingency (up to 10% of construction).



## How the Application Process Works

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### Estimated Project Costs:

- A non-refundable \$1,000 **loan packaging & processing fee** to the Certified Development Company
- Payment of certain **front-end expenses** to complete the 504 applications for submission to the local bank, the CDC and SBA (e.g., appraisals, site audit and possible accounting and legal costs, etc.);
- Payment of **504 processing fees** (but only if the 504 debenture is approved by the CDC and SBA are subsequently closed and sold) to SBA, the Wells-Fargo Corporation and the CDC in exchange for accepting a second lien position, establishing a master file and electronic debiting measures and serving as the conduit for long-term, competitively-priced, fixed rate financing.
- Note: The latter fees are built into the borrower's Section 504 loan request and therefore are financed as a part of the larger project costs. Typically, such 504 processing fees amount to approximately 3.0% of the total project cost.

### Estimated Application Timeframe:

The CDC operates on a monthly cycle which includes: 1) **preparing new 504 loan requests** with prospective borrowers during weeks one and two; 2) conducting **Area wide Loan Review Committee** meetings during the **third week** of the month; and 3) acting upon the committee's recommendations during the **Commission Board Meeting** on the last Tuesday of each month. Unless the borrower can initiate preparation of the 504 application with the CDC's staff in the **first few working days** of a given month, the loan request may have to be postponed until the following month.

Once the 504 application has received formal governing body approval, the CDC staff will forward the request to SBA's Sacramento 504 Centralized Processing Center - but only when all aspects of the application are complete and accurate. The CDC's experience suggests that a well prepared and documented 504 loan application can be reviewed and processed (i.e., hopefully approved) by SBA within three to four weeks.

SBA approval is provided to the CDC via the issuance of a **Debenture Guarantee Authorization** which details all aspects and conditions of SBA's loan approval at the request of the CDC. With the knowledge that both the CDC and SBA have given their approval to the 504 loan request, the local lending institution can provide interim construction-period financing for the project's realization. The Section 504 loan program provides **take-out financing** for the project's participating local lending institution once all construction and loan closing activities are successfully completed.



## How the Closing Process Works

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The following documents are required to get the closing process started:

- **Appraisal**
- **Environmental Clearance**
- **Title Work**
- **Interim Note and Mortgage**
- **Organizational Documents**
- **Life Insurance Policies**

Additional documents will also be needed to complete our closing book, but can be collected while awaiting closing or at closing. However, the documents listed above are necessary for our 504 attorney to begin preparing the closing documents.

The timing of funding will then depend on where we are in the current cycle, as we are always working 45-60 days out. Once our staff prepares the closing documents, our attorney will schedule a closing. Post-closing, the complete file is turned over to the SBA and the loan is pooled with all other 504 loans to be funded in the same month. The pool of loans is sold to investors as debentures, usually on the second Tuesday of every month. The borrower's interest rate is determined from the sale of those debentures and is based on current market conditions.

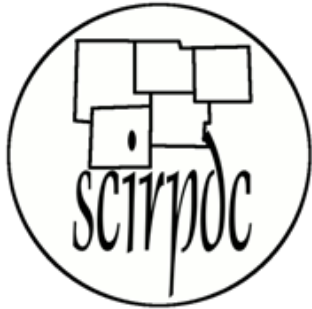
Once the rate is established, the borrower receives an amortization schedule and begins payments to Wells-Fargo Corporation. This corporation handles the payment processing and accounting for all SBA 504 loans. All questions about the loan should still be directed to SCIRPDC, which is responsible for payment, interest, or amortization schedule coordination and information.



## For Further Information

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If you would like to schedule a meeting and review session for your potential CDC-504 Loan project, we would be happy to sit down with you. Here is our contact information:



South Central Illinois Regional  
Planning & Development  
Commission  
120 S. Delmar Ave, Suite A,  
Salem, IL 62881  
[www.scirpdc.com](http://www.scirpdc.com)  
Phone: (618) 548-4234

James Patrick  
Executive Director  
Direct: (618) 740-0832  
[jpatrick@scirpdc.com](mailto:jpatrick@scirpdc.com)

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