

REDCO & The 504 Loan Program

REDCO504

Rappahannock Economic
Development Corporation

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Rappahannock Economic Development Corporation (REDCO)

- Founded in 1983
- Certified Development Company (CDC) which is licensed and regulated by the Small Business Administration (SBA)
- Non-profit organization licensed to do business throughout the entire state of Virginia

REDCO504



The Missing Piece
to Your Growing Business

REDCO 504 Mission

Promote economic development and growth of the small business community within the Commonwealth of Virginia.

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What is the SBA 504 Program?

The 504 loan program is a long-term financing tool for economic development within a community.

The 504 loan program provides long-term, fixed-rate financing to small businesses to acquire commercial real estate or heavy machinery and equipment.



How Does It Work?

- Combination of Financing (generally):
 - 50% Bank financing
 - 40% REDCO Financing (SBA)
 - 10% Owner's Equity
 - Additional equity is required for businesses less than two years old and for limited use buildings.



REDCO and the Bank are Partners

- We work together
- We require 98% of the same information and documents
- Each will underwrite the loan, separate approvals
- Loan will require SBA approval
- Borrower will have 2 closings/2 loans
- Other SBA financing (i.e. 7A, Express) may be included



Bank Requirements

- Minimum Term
- Interest Rate negotiable but must be competitive
- Fees are negotiable



REDCO Loan Limits

- **\$1,500,000** when meeting:
 - The job creation criteria of one job per \$65,000 of the CDC/SBA portion of the financing
- **\$2,000,000** when meeting:
 - One of 10 Public Policy goals
- **\$4,000,000** for “Small Manufacturers” & for businesses who reduce energy consumption and projects involving renewable energy sources



Common Public Policy Goals

- Business district revitalization
- Rural development
- Minority business development
- Veteran business owners
- Women business owners
- Energy efficiency, sustainable designs & renewable energy purposes



What Funds May Be Used For:

- Fixed asset projects such as:
 - purchasing land and improvements
 - existing buildings, grading, street improvements, utilities, parking lots and landscaping;
 - construction of new facilities
 - modernizing, renovating or converting existing facilities;
 - purchasing long-term machinery and equipment.
- The 504 Program cannot be used for working capital or inventory, consolidating or repaying debt or refinancing. (Recovery Act includes new provision to allow refinancing of some 504 projects)



Basic Eligibility for Businesses:

- Must be operated for profit and fall within the size standards set by SBA
- Small Business=
 - Net Worth < \$8.5 million, and
 - After Tax Income < \$3.0 million (average for the preceding two years)
- Demonstrate the need for financing
- Loans cannot be made to businesses engaged in: gambling, speculation, investment in rental real estate, etc.



504 Customer Examples

- Healthcare
- Auto repair
- Retail
- Manufacturing
- Franchises



Terms, Interest Rates and Fees:

- Interest rates on 504 loans are pegged to an increment above the current market rate for five-year and 10-year U.S. Treasury issues.
- Maturities of 10 and 20 years are available.
- Fees total approximately three-quarters (3/4) of one percent of the debenture plus a fixed CDC closing fee of \$2,500.
 - We build our fees into the debenture and finance them over the term of the loan.



504 Requirements

- Occupancy
 - Existing Building = 51%
 - New Construction = 60% with 20% permanently leased and 20% to be occupied within 10 years
- Down Payment
 - Typically = 10%
 - Startup or Special Use = 15%
 - Both Startup & Special Use = 20%



Collateral

- The project assets being financed are used as collateral.
- Personal guaranties of the principal owners are also required.
 - Principal owners as defined as those individuals or entities owning 20% or more.



Benefits to Private Sector Lenders

- Excellent Loan to Value = Lower Risk
- U.S. Government is the subordinate lender
- Lower interest rate is a selling point to the borrower. With the lower interest offered on the 40% REDCO portion, the overall cost to the borrower is lower.

Benefits to Local Communities

- Creation/Retention of jobs
- Tax Base Increase
- Greater access to capital for “underserved” markets



Benefits to Small Business

- Long term fixed rate
- Lower monthly payments
- Low down payment; keep cash
- Terms of bank loan are negotiable
- Helps borrower get financing when conventional loan is not affordable



What does REDCO do?

- Market the 504 program
- Originate, underwrite and package the loans
- Close the loans with assistance from our legal counsel
- Service the loan
- Assist SBA with liquidations and foreclosures

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Thank you

For more information, contact REDCO.

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