



New SBA 504 Loan Rules: Eligibility, Process, and Timeline

Description

Understanding the New SBA 504 Loan Rules (Effective November 2024)

The SBA 504 Loan Program has long been a key resource for small businesses seeking affordable, fixed-rate financing for real estate and equipment purchases. With significant updates to the program set to take effect on **November 15, 2024**, it's crucial to understand the changes, including eligibility criteria, the application process, and how Certified Development Companies (CDCs) facilitate the loan. Let's dive into the history of the program, the upcoming changes, and how businesses can best take advantage of the SBA 504 loan.

A Brief History of the SBA 504 Loan Program

The SBA 504 Loan Program was established in 1986 to promote economic development by providing affordable financing for major fixed assets. The program has helped small businesses expand, grow local economies, and create jobs by offering long-term, low-interest loans. The SBA partners with Certified Development Companies (CDCs), which work with local lenders to provide businesses with a mix of SBA-backed financing and private funding. Over time, the program has seen various updates to better serve small businesses, with the latest changes set to take effect in late 2024.

What's Changing in November 2024?

The new rules coming into effect on **November 15, 2024**, aim to streamline the program, expand eligibility, and make financing more accessible to a broader range of small businesses. Key updates include:

1. Increased Loan Limits:

- The maximum loan amount will be increased from \$5.5 million to **\$7 million** for standard projects.
- Projects that meet specific public policy goals, such as job creation or support for underserved communities, may be eligible for loans up to **\$10 million**.

2. Simplified Refinancing Rules:

- Under the new rules, businesses will find it easier to refinance existing debt, with less

stringent requirements on how long the debt must have been outstanding. This opens up opportunities for businesses with shorter-term loans to benefit from the SBA 504 program's lower rates.

3. Expansion of Eligible Projects:

- More types of projects, including those involving **green energy improvements** and **sustainability initiatives**, will now be eligible for SBA 504 financing. This reflects the SBA's increasing focus on supporting environmentally friendly business practices.

4. Quicker Approval Process:

- The new rules introduce a **streamlined approval process** for loans under \$1 million, reducing the typical timeline from 60–90 days to as few as **30–45 days**. This accelerated timeline applies to simpler projects that require less documentation and risk assessment.

5. Updated Job Creation Requirements:

- One of the hallmarks of the SBA 504 program has been the requirement for businesses to create or retain jobs as part of the loan. The new rules will relax these requirements, especially for businesses in economically distressed areas or those focused on improving environmental outcomes. This makes it easier for businesses to qualify without needing to meet strict job creation metrics.

What Types of Businesses Qualify?

The updated SBA 504 loan program will continue to target for-profit businesses, but with more flexible eligibility criteria:

- **Size standards:** Businesses must have a tangible net worth of less than \$20 million (up from \$15 million) and an average net income of \$6.5 million or less for the previous two years.
- **Industry flexibility:** Along with traditional industries like retail, manufacturing, and service, the new rules will emphasize businesses involved in **green technologies**, **renewable energy**, and **sustainable manufacturing**.
- **Public policy goals:** Businesses that can demonstrate a focus on environmental sustainability, job creation in underserved communities, or redevelopment of vacant or underutilized properties will have more access to larger loan amounts.

Businesses that remain ineligible include those primarily involved in speculative activities, real estate investment solely for rental purposes, and nonprofit organizations.

What Can SBA 504 Loans Be Used For?

The new rules expand the types of projects that can be financed. Beyond the traditional uses—such as real estate, equipment purchases, and renovations—the program now includes:

- **Energy-efficient upgrades**, such as solar panels, energy-efficient lighting, and HVAC systems
- **Land development and infrastructure improvements**, particularly for businesses in rural or underserved communities
- **Technology-driven expansions**, allowing businesses to invest in high-tech equipment, automation, or digital infrastructure

Required Documentation for SBA 504 Loans

The documentation requirements under the new rules remain largely the same, but the application process will be more streamlined for loans under \$1 million. Businesses will still need to submit:

- Business financial statements, personal financial statements of owners, and tax returns
- Appraisals and environmental reports for real estate purchases
- Business plans with growth projections and job creation strategies (or alternatives if public policy goals are met)
- Resumes of key management personnel

The inclusion of additional documentation for green projects and refinancing options has been simplified to reduce the burden on small businesses.

Role of Certified Development Companies (CDCs)

Certified Development Companies (CDCs) are central to the SBA 504 loan process. CDCs are nonprofit organizations certified and regulated by the SBA, whose mission is to promote economic growth within local communities by helping small businesses access affordable financing.

With the new rules, the role of CDCs remains the same, but businesses may experience a more efficient approval process due to new collaboration efforts between CDCs and third-party lenders. CDCs will:

- Oversee loan applications, ensuring all documentation is correct and the project meets eligibility requirements
- Help businesses meet new public policy goals, such as environmental sustainability
- Act as intermediaries between the borrower, lender, and SBA, ensuring smooth communication and compliance with new rules

Timeline for SBA 504 Loans (Updated for 2024 Rules)

The timeline for completing an SBA 504 loan will vary depending on the project size and complexity. Under the new rules, the typical process will take:

- **30–45 days** for loans under \$1 million, thanks to the streamlined approval process
- **60–90 days** for larger or more complex projects, including those requiring environmental approvals or extensive job creation documentation

The updates to the SBA 504 loan program aim to provide businesses with quicker access to capital, particularly for simpler projects or those focused on public policy goals like sustainability or rural development.

Final Thoughts

With the new rules taking effect in **November 2024**, the SBA 504 loan program will be even more accessible to small businesses looking to finance major purchases. The increase in loan limits, faster approval times, and expanded project eligibility make this program a powerful tool for businesses seeking long-term, fixed-rate financing. By partnering with a Certified Development Company (CDC), businesses can navigate the loan process smoothly and take full advantage of the updated program to

support their growth and community impact.

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1. Commercial Loans

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