# SBA 504 Loan Program – Frequently Asked Questions (FAQ)

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## What are the loan size constraints of the SBA 504 program? What are the maximum proceeds?

The SBA 504 loan structure has three parts: a commercial lender 1st mortgage (typically 50% of the project), an SBA/CDC 2nd mortgage (typically 30–40%), and borrower equity (typically 10%–20%). The SBA/CDC portion is capped at $5.0MM for most projects, or $5.5MM for small manufacturers and qualifying energy-efficient projects. While the SBA piece is capped, there is no set cap on total project size.

We have financed projects as large as $30MM using the 504 structure. For example, a $30MM project could be structured with a $21.0MM (70%) first mortgage from the bank, a $5.5MM (18%) SBA debenture, and approximately $3.5MM (12%) in borrower equity. This blend of a larger 1st mortgage and increased borrower equity, allows larger transactions to be completed within the SBA 504 framework.

Please note that borrower equity requirements increase for certain projects: 15% for start-ups or special-purpose properties, and 20% if both apply.

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## Is there a minimum loan size where the 504 program becomes cost effective?

There is no SBA rule setting a minimum, but in practice the 504 program makes the most sense for projects of $500,000 or more. Below that level, the cost of third-party reports and closing expenses start to outweigh the benefits.

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## Will you consider rental income from the 49% tenant-occupied portion?

Yes, tenant rent can be counted as an eligible cash flow source, but the SBA 504 program is primarily for owner-occupied properties. The small business must occupy at least 51% of an existing building (or 60% initially and 80% within 10 years for new construction).

Many lenders want to see that the owner-occupant business can cover 80 to 90% of debt payments from its own business cash flow, with tenant income considered as supplemental support to get to the standard 1.20x DSCR.

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## Are reimbursements for out-of-pocket construction costs eligible?

Yes. SBA 504 funds can reimburse eligible project costs paid before the loan application, such as land purchase, construction draws, permits, or architect fees. These costs must be documented and clearly attributable to the project.

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## When you state renovations and improvements can be financed, does this include a franchise business leasing a property long-term that wants to finance their buildout?

No. Although technically permitted under the SBA 504 program if there is a long term lease (exceeding the SBA debenture term) in place, financing tenant buildouts with the SBA 504 program is generally avoided by most lenders and CDCs. In over 25 years of lending experience, we have not seen a project of this nature approved. For these situations, the SBA 7a program is the more appropriate option and it is commonly used to finance tenant improvements.

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## Can rent credits be applied as the required equity down payment?

Possibly, but only in a narrow scenario. If there is a lease-option agreement where rent payments are explicitly credited toward the purchase price, a lender/CDC may consider those documented credits as part of equity. Approval is case-by-case, and cash equity is often still required.

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## Can we refinance an SBA 504 loan with a new first mortgage, taking cash out for eligible business expenses while leaving the existing CDC portion in place?

Yes, the first mortgage can be refinanced while leaving the SBA/CDC debenture in place, but cash-out is not typically permitted.

There is a narrow exception called a cash-out subordination, where the CDC may agree to subordinate its lien to a larger new first mortgage so equity can be taken out. This requires SBA approval and is typically only permitted by most CDCs if the funds are clearly used for the betterment of the collateral (such as renovations or improvements). It is rare and highly dependent on the CDC and deal specifics.

Alternatively, a full 504 refinance (paying off both the old first mortgage and SBA debenture) can include cash-out for eligible business expenses, subject to SBA refinance program rules.

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## What is generally considered acceptable income for qualifying the loan?

The SBA requires that the operating company using the property is the primary source of repayment. The EBITDA from that operating business, plus any non-recurring rent expense that was previously paid to a 3rd party landlord, is considered the cash flow available to service the debt. Tenant rent from non-owner-occupied space can be counted, but it is considered secondary.

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## Are liquor businesses that occupy real estate SBA 504 eligible?

Yes. Both businesses that sell alcohol (e.g., liquor stores, bars, restaurants, distributors) and those that produce alcohol (distilleries, breweries, wineries) are eligible for SBA 504 financing.

Businesses that are not eligible for SBA financing include those engaged in illegal activity (including cannabis which remains illegal at the federal level), speculative ventures, nonprofit organizations, and sexually oriented businesses.

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## Can you bundle multiple pieces of real estate into a single SBA 504 transaction?

Yes. Multiple parcels can be included if they are part of the same overall project for the same operating company and the occupancy requirement is met in aggregate. For example, adjacent buildings used together as one facility can be bundled.

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## How long is the process from application to closing?

Most SBA 504 loans close in about 45 to 75 days. A major factor is the speed at which the borrower provides the items needed for underwriting. The main pacing item is typically the real estate appraisal, which usually takes 3 to 4 weeks.

The bank and CDC underwrite in parallel, and once a complete package is submitted, the SBA typically issues approval in 5 to 10 business days. Choosing an experienced CDC that properly packages and submits the loan to the SBA can significantly speed up the process.

## What is the maximum loan amount available under the SBA 504 program?

The SBA 504 portion is capped at $5.0MM for most businesses or $5.5MM for small manufacturers and qualifying energy projects. After fees, this is about $4.9MM to $5.35MM net proceeds.

There is no maximum on the bank's first mortgage or the overall project size. It's not uncommon to see total projects of $10MM to $25MM financed with the 504 structure.

## Do brokers need to submit their deal to both the lender and the CDC?

No. The bank and CDC work together simultaneously. The broker or borrower provides core information to the lender, and the lender and CDC coordinate packaging and submission.

That said, there are a few SBA-specific forms (such as SBA Form 1244 and Form 159) that are needed by the CDC. These are standard SBA requirements and the CDC will guide borrowers through them.

## Can you use SBA 504 loans to finance improvements on a ground lease?

Yes, if the ground lease term (including renewals) covers the full SBA loan term and the lease meets SBA requirements (e.g., assignable, no landlord veto rights, etc.).

However, many lenders are reluctant to finance ground lease projects even if SBA rules allow it. Common examples where projects that have ground leases are financed include buildings on National Forest Service land, tribal land, and airport properties.

## Does the SBA 504 program permit C-PACE financing in the capital stack?

Yes. As of December 2024, SBA allows C-PACE financing to be used alongside a 504 loan, but only if strict conditions are met:

- The SBA must approve the subordination.
- The lien must be limited in amount, with no future advances.
- The C-PACE term cannot extend beyond the SBA loan term.
- The lien cannot impair SBA or bank recovery rights.

Even with SBA approval, many lenders are reluctant to finance deals with C-PACE, so it's important to confirm lender willingness early. C-PACE is always treated as additional debt, not equity, in the capital stack.

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## Can mixed-use properties be financed where there is a mix of commercial and residential space, assuming the commercial space is 51% or more and is occupied by the small business?

Mixed-use properties are eligible if the commercial space occupied by the small business is at least 51%. The residential portion is allowed but must be secondary and cannot dominate the property or be the primary income source.

## What is the minimum FICO score required for an SBA 504 loan?

The SBA does not set a hard minimum. In practice, most lenders look for a credit score of 670 or higher for guarantors. Some may require higher, and some may allow slightly lower if there are strong compensating factors.

## How many years of tax returns are required?

Answer: Most lenders and CDCs require the last three years of business tax returns, along with three years of personal returns for owners of 20% or more. If three years aren't available (e.g., a newer business), lenders will work with what's available, plus interim financials and projections.

## What is the interest rate and the term on the first mortgage?

The 1st mortgage is set by the commercial lender, not the SBA. Rates usually range from CMT + 2.50% to CMT + 4.00%, depending on credit and structure. Terms are typically 10 years (sometimes longer), with amortization of 20–25 years.

The SBA 2nd mortgage is always a long-term fixed rate (20 or 25 years).

## Do you require both personal and business tax returns?

Yes. Expect to provide business tax returns (generally the last three years) and personal tax returns for all 20%+ owners. Lenders also require a personal financial statement and interim financials.

## Can an existing business that reflects a loss in the most recent tax year still qualify for a loan?

Yes. A loss in the most recent year doesn't automatically disqualify a business. Lenders and CDCs review the overall financial picture, including multi-year trends, interim performance, guarantor strength, and explanations for unusual expenses. The business must still show it can cover debt service going forward.

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### As a broker, can we receive compensation on an SBA 504 loan? What is the amount of compensation?

Yes. Brokers can be paid. In practice, broker fees are typically capped at 1.0% of the 1st mortgage amount. The fee is usually paid by the commercial lender at closing and often passed on to the borrower as an increased loan fee.

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### How does a broker make money?

Brokers are typically compensated by the commercial lender, not the SBA or CDC. Some lenders pay the broker a referral or origination fee, generally up to 1.0% of the 1st mortgage amount. This fee is often built into the overall pricing of the loan and passed on to the borrower as part of the loan costs. Brokers cannot be paid from the SBA/CDC portion, and any compensation must be disclosed on SBA Form 159.

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### As a broker looking for deals, is there public record information I can use to identify refinance opportunities?

Yes. Public records such as county recorder or registrar of deeds offices show recorded mortgages, maturity dates, and lien information. Many brokers also monitor UCC filings, commercial mortgage-backed security (CMBS) loan maturities, and SBA loan performance data (some of which is published by the SBA). In addition, SBA loan data can be requested directly from the SBA through a FOIA request. While these records can highlight potential refinance opportunities, most brokers combine public data with relationships in the market and outreach to banks, accountants, and attorneys who know when borrowers may be seeking to refinance.

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