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504 Loans: As Good as it Gets

By Karen Howard, Executive Director, Enchantment Land Certified Development Corporation

Owner occupied businesses eager to take advantage of deflated real-estate prices to purchase the building they've been leasing, to buy land to construct a building or to renovate existing facilities are finding plenty to like in the U.S. Small Business Administration's 504 loan program.

The program was created in 1980 to help small, independently owned companies — the biggest job-creators in the country — secure the fixed assets they needed to expand and modernize.

Because the federal government underwrites 40 percent of each loan — with the business owner contributing as little as 10 percent — many traditional lenders are more willing to offer a first mortgage for the remaining 50 percent of the loan amount. The business owners can get money they otherwise might not be able to get at lower-than-market rates for owner occupied fixed asset financing, allowing them to conserve cash for other operating costs.

What it buys

A 504 loan can be used for anything that constitutes a “fixed asset.” It can be used to buy land or a building or to construct a new facility or renovate an older one. Other eligible site improvements include road building, installing utilities, adding a parking lot and landscaping. Durable machinery and equipment with a 10-year work life can also be purchased.

Where to go

The Small Business Administration distributes 504 loans via certified development corporations. These nonprofit corporations work with the federal agency to raise awareness of the 504 program and with private-sector lenders to funnel money to businesses.

Certified development corporations prepare the loan paperwork, coordinate the efforts of all parties to the loan and structure the loan to balance the interests of the borrower and the Small Business Administration. Because certified development corporations aren't out to make a profit, they can do all this work for a fraction of what a private lender would charge and can offer the most competitive rates available.

A local rainmaker

Enchantment Land Certified Development Corp. (ELCDC) is one such certified development

corporation that, since its inception in 1992, has approved more than \$286 million in business-financing projects around the state, with an additional \$500 million contributed by banks. All this cash has helped New Mexico businesses create or retain more than 11,000 jobs.

As the state's largest provider of 504 loans, and the only New Mexico based firm, ELCDC has helped more than 700 companies secure the funds they need to stay in business or to expand. That's in keeping with its goals to promote the general prosperity of New Mexicans and to stimulate economic development and private-sector employment in the state.

For more information, call (505)264-9929 in Northern New Mexico, (505)843-9232 in Albuquerque, or (575)524-6830 in Southern New Mexico.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Centers (NMSBDC), Empowering Business Spirit (EBS), Northern New Mexico Connect, Technology Ventures Corporation, The Securities Division of the New Mexico Regulation and Licensing Department, Coronado Ventures Forum, and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

