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SBA 504 Certified Development Companies: The Nation's Leading Economic Development Lenders

by Kurt Chilcott, *President & CEO, CDC Small Business Finance*



CDC Small Business Finance provided financing to Alfa Scientific Designs to purchase its new facility near San Diego. Alfa Scientific Designs develops one-step tests for pregnancy, allergies, cancer, drug abuse and infectious diseases.

Something remarkable happened in the last 15 years in the economic development finance arena — something that has remained a relatively well-kept secret.

A network of 200-plus community-based nonprofit organizations funded more than \$21 billion in loans, leveraged an additional \$26 billion in private capital from hundreds of financial institutions across the country, and helped small business clients to create more than a million jobs.

Over the past decade the growth of this industry has rivaled that of some of the nation's fastest-growing companies. Since 1992, the number of loans generated by this industry has risen more than 170 percent, and their dollar volume has increased 293 percent. And what, exactly, *is* this industry?

Call it “the 504 industry.” It’s the result of a government loan program: the Small Business Administration’s Certified Development Company (504) Loan Program, known simply as SBA 504 — and recognized as the most significant economic development finance program in the nation. Among its many other benefits, this government-underwritten success story has been achieved at virtually no cost to taxpayers — because program costs are recovered from loan fee revenues.

SBA 504 partnerships at work

The SBA 504 is a subordinated debt product fully guaranteed by the Small Business Administration that allows growing small businesses access to below-market, long-term, fixed-rate financing for major fixed assets, typically owner-occupied real estate.

The SBA 504 program helps participating small businesses purchase and occupy their buildings, facilitating business growth and creating jobs and investment in their communities. Through a partnership with hundreds of banks, small businesses receive up to 90 percent loan-to-value financing, with the bank providing the major share of the needed capital (typically 50 percent) through a first trust

deed and the SBA providing most of the remainder of the financing (typically 40 percent). The borrower contributes a minimum down payment (typically 10 percent), freeing much-needed cash for other business purposes.

The entities that deliver this valuable program are certified development companies (CDCs), an evolution of the development company concept first established by Congress in 1958 to promote economic development through small business support in communities around the country. Today there are about 270 nonprofit CDCs nationwide — urban, rural, large and small. They are diverse organizations that have evolved to meet the specific economic development needs of their communities. Many CDCs are one-stop capital-access shops offering a range of other small business programs in addition to the 504 program.

“CDCs add tremendous value to the SBA infrastructure, and they don’t compete with banks for general business finance needs,” says Chris Crawford, President of the National Association of Development Companies (NADCO), the industry’s trade association. “Rather, they provide a valuable service that banks cannot provide. CDCs are advocates for small businesses in their communities, complementing and reinforcing SBA’s advocacy role.”

Just as homeownership helps families to build equity and stabilizes communities, the SBA 504 program does the same for small businesses. A small business that owns its facility is more likely to stay in the community and become involved in its development or revitalization.

Good business for banks

The SBA 504 is fundamentally a co-lending product. That is, every loan is completed in partnership with a bank or other financial institution.

These partnerships are essential to the success of the 504 program, the CDC industry, and banks’ outreach to small businesses. Banks ensure that their small business clients are aware of the SBA 504 product and work closely with CDCs to ensure success and customer satisfaction. They recognize the value of the program and the CDCs in bringing jobs, investment, and small business growth to the communities that the partner banks serve. Smaller banks in particular appreciate the value of CDCs in helping them to provide SBA products that they might not otherwise be able to offer, given their limited infrastructure.

Bottom line: The SBA 504 program is good business for banks. They can provide their small business customers with access to long-term fixed-asset financing, minimize their risk, increase their lending limits, maintain liquidity, and do all of this without bogging down in paperwork and SBA oversight.

But there’s more. Working with CDCs and the SBA 504 program can be an excellent way for banks to meet the requirements of the Community Reinvestment Act (CRA). In addition, since CDCs must have financial institution representation on their boards and loan committees, bank representatives’ serving in these roles meets the CRA service test. Many CDCs have several different boards and committees, providing ample opportunity for bank involvement.

The 504 program’s public policy goals also create opportunities for CRA credit. CDCs undertake specific outreach to women, minority, veteran and other underserved small businesses that for-profit lenders cannot always accomplish while still adhering to their fiduciary duty to their shareholders.

Many CDCs also offer investment opportunities, such as multibank consortiums or targeted revolving loan funds.

And that pretty much says it all. Working with CDCs and the SBA 504 program is a winning strategy for all concerned — especially the communities we all serve and the small businesses that are essential to their survival and success.

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How a CDC Brings the Benefits of SBA 504 Loans to Clients

Serving southern California, CDC Small Business Finance Corporation is the largest of the 270 certified development companies chartered by the Small Business Administration to undertake economic development through the SBA 504 and other small business programs. CDC has funded almost \$1 billion in small business projects that have created more than 50,000 new jobs in southern California communities. In 2002 CDC set a new national record — and maintained its status as the number-one SBA 504 lender nationwide — by securing more than \$152 million in SBA 504 loan approvals, working with 56 different lending partners. CDC also offers small business technical assistance as well as a wide range of other local and state economic development programs.

Chieu Le knows first-hand how CDC Small Business Finance can help a minority entrepreneur. Le escaped from Vietnam on a small boat in 1978, spent a year in a Malaysian refugee camp, and then made his way to San Jose, CA. There, in partnership with his wife Yen and brother Henry, he started operating a mobile food truck in 1980.

From that small beginning the three partners built a food service products and restaurant equipment business that now employs 120 and distributes products to more than 400 independently operated catering trucks in the Sacramento and Bay areas. Recently the partners opened a gourmet foods market offering prepared dishes hot-to-go. Its success has been so great that two new stores are in the works.

At two critical points during the development of their business, the partners obtained SBA 504 loans through CDC — first to buy a warehouse and then to finance their market and the facility to supply it. “The people at CDC explained everything very clearly,” says Yen Le, “and they had great follow-through. Our SBA 504 loans were essential to our success.”

Naishu Wang, M.D., is yet another extraordinary entrepreneur who built a successful business with CDC and SBA 504 help. A native of China who practiced medicine there for 14 years, she came to the U.S. as a teaching assistant. She made her mark in the biomedical field through work that significantly improved the leading early pregnancy test. She then founded Alfa Scientific Designs, which is now an FDA-licensed manufacturer of in-vitro diagnostic devices — and a highly successful business developing one-step tests for pregnancy, allergies, cancer, drug abuse and infectious diseases.

Growing rapidly, Alfa Scientific needed to relocate. Two years ago, with a CDC-managed SBA 504 loan, it was able to purchase a facility near San Diego. “Without CDC’s help,” Dr. Wang says simply, “we never would have been able to do what we’ve done.”

Partnering with a Certified Development Company Under the SBA 504 Program

Certified Deveopment Companies (CDCs) work with the SBA and private-sector lenders to provide financing to small businesses. There are about 270 CDCs nationwide and each CDC covers a specific geographic area. To locate a CDC in your area visit

<http://www.sba.gov/financing/sbaloan/cdc504.html>