

**CALIFORNIA STATE TREASURER'S OFFICE
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY
COMMISSION (CIDFAC)**

DATE: March 26, 2012

TO: Interested Parties

RE: SBA 504 Loans and Industrial Development Bonds (IDBs)

The Small Business Administration (SBA) recently provided the following clarification to its Certified Development Companies (CDCs) regarding the SBA's position on the use of SBA 504 loans and IDBs to finance a single manufacturing project:

SBA may participate in projects financed by federal tax-exempt obligations, such as IDBs. When the 504 loan project includes an IDB, and the IDB requires a lien on the project property, the IDB lien must be junior to the SBA loan. When the IDB portion of the 504 loan project is not secured by a lien on the project property, SBA's *debt* may be subordinate to the IDB. If a letter of credit serves as collateral on both the SBA and IDB transaction, SBA's right to payment under the letter of credit may be subordinate to that of the IDB. This requirement for IDBs holds true for other forms of federal tax-exempt obligations.

What this means

IDBs secured by a bank-issued letter of credit can be used in combination with SBA 504 loans to finance up to 90 percent of a manufacturing project's capital costs. The proceeds of SBA 504 loans can be used to finance:

- Building purchases and renovations
- Land purchases
- Furniture and equipment purchases.

The maximum SBA 504 loan is \$5 million, and the borrower must meet the SBA's small-business thresholds and public benefit criteria (e.g., job creation or retention).

The following is an example of a possible financing structure for a \$5 million manufacturing project:

- \$2.5 million (50%) IDB supported by a bank-issued letter of credit (first lien on the collateral)
- \$2 million (40%) SBA 504 loan through a CDC (second lien on the collateral)
- \$500,000 (10%) borrower contribution

Contact Eileen Marxen, Executive Director of the California Industrial Development Financing Advisory Commission (CIDFAC), at (916) 653-9129 or emarxen@treasurer.ca.gov for more information regarding IDB projects.

For more information regarding SBA 504 loan parameters and requirements, go to <http://www.sba.gov/content/cdc504-loan-program>.