

Newsletter

Rising Interest Rates

SBA 504 Effective Rates for June 2022

25-year - 5.19% / 5.20% Refi ~ 20-year - 5.13% / 5.15% Refi ~ 10-year - 4.93% / 4.95% Refi

The interest rates for the SBA 504 Loan Program seem to be skyrocketing, so why should a small business owner still choose the 504 Program to finance a fixed asset purchase?

The increasing interest rates are determined by the Federal Reserve, which is driven by global economic recovery and domestic inflation.

Regardless of how high interest rates are, the SBA 504 Loan Program has been a powerful lending tool for small business owners for over 40 years, offering multiple long term benefits and allowing business owners to maintain control of their occupancy costs.

Historically, the 504 program has helped small businesses, particularly in times of economic distress. It has been a reliable lending source and has granted small business owners peace of mind in challenging times.

But interest rates are not the only factor that determines a monthly payment, there are several influences that go into the repayment. Even with the rising rates, there are still numerous reasons to utilize the SBA 504 program to finance a fixed asset:

Fixed interest Rates -

The SBA 504 Loan Program has fixed rates. These rates will remain the same over 10, 20, and 25 years, which provides a consistent monthly payment over the life of the loan.

Other types of business financing can carry variable rates, which means the rate will change on a monthly, quarterly or annual basis. Loans with variable interest rates may be tied to the prime rate or other rates in the economy. Variable rates often start off lower than fixed rates but they can have a much higher risk for the borrower since both the rate and the monthly payment can change frequently.

Alternatively, a fixed interest rate has the potential to save a borrower thousands of dollars when rates are on the rise. Borrowers that lock in a fixed rate today will still be enjoying that rate several years down the road, when overall interest rates could be exponentially higher.

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Low Down Payment - The 504 Program offers a lower down payment than most small business lending programs, as low as 10% down for most small businesses, up to 20% in very specific special circumstances (such as a purchase of a special-use property or a startup business). As opposed to conventional financing with is typically 20% or 30%, and can be as high as 50%.

With the low down payment, small businesses don't have to come up with a lot of cash or collateral and can retain the working capital that they need to be able to grow.

Eligibility - The SBA 504 Loan Program is designed to be accessible to small businesses, which means the eligibility requirements are not as strict as many conventional loans. The 504 Program has a lower annual business revenue requirement, a lower minimum credit score, and is also available to startups.

Special-use properties (such as hotels and gas stations) are also able to utilize this lending program, while most conventional lenders are more hesitant to lend to these properties and will often require a much larger down payment.

Collateral - Typically there are no additional collateral requirements outside the assets being financed for the 504 program, but many conventional lenders will require additional collateral, such as a personal residence, on a fixed asset loan.

Overall, the SBA 504 loan has proved to be one of the best small business financing options. Contact one of our business development officers for any questions or further information.

May's Loan Fundings

NWBDA funded **5** new projects for the total amount of **\$4,713,315**

May's Loan Approvals

NWBDA approved **10** new projects for the total amount of **\$28,665,801**

In the month of May, NWBDA helped **create 10 new jobs** in the local communities

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