

# Chesapeake Business Finance Corp.

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## 504 Updates

### Questions and Answers on the SBA 504 Loan Program

**1. Where does the number “504” come from?**

It is from the U.S. Small Business Investment Act of 1958, as amended. The 501 program made loans to state development companies and was discontinued in 1980. The 502 program used funds appropriated by Congress from 1960 until it was changed to use SBA-Guaranteed debentures in 1980 and become the 503 program. It, in turn, was changed to the 504 program in 1986 when the program was revised to raise funds from the private sector instead of the U.S. Treasury.

**2. What is a CDC?**

CDC stands for Certified Development Corporation, and CDCs are specialized non-profit organizations that are licensed by SBA to provide Section 504 long-term loans to businesses. Chesapeake is one of several hundred CDCs nationwide that market the program, process the loans, and service the loan portfolios after the loans are funded.

**3. Where does the money come from?**

CDCs like Chesapeake issue standardized, long-term, fixed-rate debentures, which are guaranteed by the SBA and then securitized and sold in amounts of \$200 - \$250 million per month by Merrill Lynch and First Boston to institutional investors. SBA 504 debentures are considered to be “agency paper” (U.S. Government Agency), and the volume is large enough to generate its own secondary trading market.

**4. What is SBA’s role?**

SBA prepares regulations and operating procedures for the program, approves the individual loan requests, and monitors the CDCs. Neither the borrowers nor the banks ever deal with SBA directly.

**5. What is the purpose of the 504 program?**

It started after a Federal Reserve study in the 1950s recommended the 501/502 programs and the Small Business Investment Company program (venture capital) to stimulate investment by small businesses to help the economy – hence the name Small Business ‘Investment’ Act. One measure the SBA uses to monitor the program is the creation and preservation of jobs.

**6. How large is the 504 loan program nationwide?**

The SBA 504 program recently passed a major milestone of helping to create over 1 million jobs in growing small businesses. Annual loan approvals are at approximately \$3 billion, and the 504 portion averages 30% of total project costs, thus the annual capital investment in the economy from the 504 program, counting both owners’ investment and bank financing, is \$10 billion/year.