

# The ABCs of CDCs

*By David Lewis*

When most people hear the acronym CDC they think of the Center for Disease Control. Although this is a critical organization in terms of maintaining the health of our nation, there is another type of organization known as a CDC that can be critical to the health of your small business. Certified Development Companies are non-profit corporations set up to promote economic development and job creation. They partner with the U.S. Small Business Administration and private sector lending institutions to provide loans to small businesses.

There are over 270 CDCs spread across the country. They typically operate within specific geographic areas. Their primary mission is to administer the SBA 504 Loan Program. The 504 Loan Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land, buildings, and some types of equipment. Typically, a 504 project includes a loan secured with a first lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a second lien from the CDC (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped.

The structure of this loan creates two primary benefits when compared to

traditional bank financing: interest savings and cash conservation.

Based on most economic forecasts, interest rates will continue to increase. Generally, a traditional bank loan's interest rate floats but a portion of the SBA 504 interest rate is fixed. Fixing the interest for 20 years on 40 percent of the project cost has a compounding effect when compared to a conventional bank loan that is not fixed and floats in an increasing interest rate environment. Recently, the fixed portion of the program has offered rates below the New York prime rate.

The SBA 504 Loan Program also conserves the borrower's cash. The program allows interim interest and other soft costs to be financed on a long term basis, ultimately resulting in 90 percent financing of all eligible costs. Additionally, traditional bank loans typically require an equity injection of at least 20 percent and are often termed for a period of less than 20 years. This loan allows the borrower to conserve more of his cash for working capital purposes.

In addition to the 504 Loan Program, many CDCs offer other financing options. Many administer and manage micro loan or community revolving loan funds. Oftentimes these funds offer reduced interest rates or attractive terms. In many cases they can be used to finance small poorly secured projects that traditional lenders shy away from.

If you are a small business looking to purchase or build a building or to expand its scope of operations, don't forget to check into all of your options at your local Certified Development Company.



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