

THE SURPRISING SIMPLICITY, SAFETY, and STRATEGIC ADVANTAGES of CREDIT UNION SBA 504 LENDING



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Introduction. At their core, both the SBA and credit unions are driven by the same mission — to expand access to opportunity and empower everyday Americans to build lasting wealth. The SBA was created to open doors for entrepreneurs who might otherwise be overlooked by traditional lenders. Likewise, credit unions, as member-owned cooperatives, put people before profits, reinvesting earnings to deliver better rates, services, and community impact. Together, this shared commitment makes SBA lending a powerful and natural extension of the credit union mission — helping more members achieve their business dreams while strengthening local economies.

The commercial real estate (CRE) lending landscape is changing fast. With conventional interest rates still elevated, small business owners are seeking stable, affordable alternatives—and they're finding them in SBA 504 loans. These government-backed, fixed-rate loans offer below-market interest rates, longer terms, and lower down payments, helping businesses secure property, upgrade facilities, buy equipment, machinery, furniture or fixtures, or in specific instances refinance debt while preserving cash flow.

For credit unions, this shift presents a powerful opportunity: to grow market share, strengthen member relationships, compete with other financial institutions and position themselves as community champions in small business real estate financing.

Conventional CRE loan pricing varies by product and risk, and loans are commonly priced as an index (e.g., SOFR, CMT) plus a Credit spread. Rates are often floating and can range from mid-single digit to low double digits. This creates significant headwinds for small business borrowers. This is not a temporary rate anomaly—it's a structural shift in how small businesses finance real estate. Even if rates moderate in 2026, SBA 504 programs will remain the preferred path for stability and

predictability. For credit unions, this means long-term opportunity to expand lending portfolios with lower risk and higher member satisfaction.

This white paper explains the SBA 504 Program and the resources available to enable forward-thinking credit unions to seize this moment to lead the market.

Key Takeaways

- There is a high, sustainable demand for low fixed rate, long term commercial real estate loans. Generally speaking, common bank-generated commercial real estate loans are variable rate, short maturity - balloon payment, high-risk financing vehicles.
- SBA 504 Loans provide low risk, well-secured, NCUA-friendly member and balance sheet growth opportunities for credit unions.
- It's the 6th Collaborative principle at work: cooperation among cooperatives. Qualified small businesses can obtain needed financing due to the collaboration of three cooperative organizations: the Credit Union, the CDC and the CUSO.
- Showcase - AVANA CUSO: Taking the complexity out of SBA 504 lending for credit unions.

PART ONE:

SBA 504 LENDING: A BASIC PRIMER

How SBA 504 Loans Work: An SBA 504 loan uses a three-party structure that offers predictable terms and manageable risk for all parties. The parties include the borrower, the credit union, and a certified development company (CDC). CDCs are SBA-certified nonprofit organizations that support economic development in their communities.

- **The Borrower's contribution:** In most cases, the small business provides a minimum of 10% down payment. This allows businesses to conserve working capital, a significant benefit compared to conventional commercial loans that typically require 25% to 40% down.
- **The Credit Union's role** is to fund up to 50% of the loan and hold a first lien on the asset being financed.
- **The CDC's role** is to fund the remaining 40%. The CDC portion is 100% guaranteed by the Small Business Administration (SBA). The CDC holds a subordinate lien, further mitigating credit union risk as senior lienholder.

SBA 504 loans are used for long-term, fixed-asset financing for growing, for-profit businesses, primarily for the purchase, construction, or renovation of real estate and the purchase of long-term equipment. They can also be used for associated costs like land, parking lots, and utilities, and in some cases, for debt refinancing. These loans are not for working capital, inventory, or startup costs.

For borrowers, SBA 504 loans are affordable and stable. For credit unions, SBA 504 lending is a scalable, low-risk lending channel that deepens member relationships by offering long-term, fixed interest financing as follows:

Loan amount: The SBA debenture portion can be \$25,000 - \$5 million. Energy public policy projects and small manufacturers may be eligible for up to \$5.5 million. The remaining portion of the loan is funded by the credit union, resulting in a total loan amount of up to **\$20-25 million**.

Repayment terms: The repayment terms of the SBA debenture is 20 to 25 years, while the repayment term of the credit union portion can be 10 years or more, with rate reset every 5 years.

Interest rates: The SBA Debenture rate is priced monthly via debenture sale and generally indexed to the 10-year U.S. Treasury. The Credit Union portion is set by the lending credit union.

Collateral: The equipment of property being financed serves as collateral. In some cases, borrower may be asked to provide additional collateral.

Fees: Fees typically include SBA, CDC, and credit union fees, which vary. These fees are baked into the total loan amount, so a business owner's up front cost is the 10% down payment.

Funding Speed: Varies, but generally 30-90 days.

Who is Eligible for a SBA 504 Loan? Standard SBA borrower requirements include, but are not limited to, the following:

- Must be a for-profit business operating in the U.S.
- Business must be 100% owned by U.S. citizens, U.S. nationals, or unconditional lawful permanent residents (LPRs).
- It must be a small business as defined by the SBA.
- Net worth of less than \$20 million.
- Average net income (after federal taxes) of less than \$6.5 million for the 2 years prior to application.
- Purpose must be to finance a major fixed asset purchase, upgrade, or other eligible use case.
- The proposed project must create or continue a certain number of jobs or meet SBA public policy goals.¹

PART TWO:

COMPARING CONVENTIONAL CRE LENDING AND SBA 504 LENDING

A **conventional commercial real estate loan** is a mortgage used to purchase, develop, or refinance income-producing commercial properties, such as office buildings, retail centers, or warehouses. Unlike residential mortgages, these loans are typically issued to businesses, not individuals, and come with different qualification requirements and loan terms.

A term loan is the most common type of commercial real estate mortgage, best suited for stabilized properties that already have steady cash flow. The loan is defined by having a fixed repayment term, typically 5 to 20 years.

¹ <https://www.nerdwallet.com/business/loans/learn/sba-504-loans>

That said, most conventional term loans are amortized over longer periods with a balloon payment at the end. For example, a 10-year term loan could be amortized over 30 years, meaning the monthly payments are structured so that it would take 30 years to pay off the

Conventional Financing



The 504 Advantage



loan. However, since the loan matures in 10 years, the remaining balance is due as a lump sum at the end. The interest rate can be fixed or variable. The majority of conventional commercial real estate term loans are secured by a first lien on the property and the personal guaranty of the borrower or borrowers. The property is generally required to meet a minimum debt-service coverage ratio (DSCR) or the loan not to exceed a maximum loan-to-value (LTV) ratio of 70 to 80%. In the event of default, the lender is 100% at risk.

In comparison, the Small Business Administration encourages the growth and development of small business by offering government guaranteed financing through lending programs such as the **SBA 504 loan** program which provides long-term, fixed rate financing up to \$5.5 million for major fixed assets that promote business growth and job creation.

The SBA 504 loan program empowers America's small businesses to grow by offering affordable financing for commercial real estate and major equipment purchases. Beyond acquisition, the program now allows refinancing of eligible fixed-asset debt—helping business owners lock in long-term, fixed-rate stability. For entrepreneurs looking to expand or strengthen their financial footing, the SBA 504 loan stands out as one of the smartest financing solutions available today.

The 504 loan has loan options of 10-years, 20-years, and 25-years. It is fully amortized through the life of the loan, meaning there is no balloon payment at the end of the term. This long term, below market rate provides small business owners with affordable monthly payments and enables them to control their overhead costs for the long term.

504 loans are available through collaboration between credit unions and Certified Development Companies (CDCs), SBA's community-based nonprofit partners who promote economic development within their communities. CDCs are certified and regulated by SBA and there are over 250 CDCs in the United States.²

In other words, qualified small businesses can obtain needed financing from the *collaboration of non-profit organizations: Credit Unions and CDCs*. SBA 504 loans are valuable for small businesses because they provide long-term, fixed-rate financing for major fixed assets

like real estate and equipment, enabling significant expansion and job creation.

Key benefits for borrowers include a low down payment requirement that preserves working capital, below-market interest rates, and long repayment terms that lead to more affordable monthly

² https://www.sba.gov/funding-programs/loans/504-loans/list-certified-development-companies?field_address_administrative_area=All

payments and predictable overhead. The importance of these loans lies in their ability to help small businesses grow, create jobs, and remain financially stable by allowing them to acquire assets without exhausting cash reserves.

SBA 504 Loans Present a Conventional CRE Term Loan Refinancing Opportunity. Many commercial property owner/borrowers who are currently paying high interest rates and/or are facing balloon payments, need additional capital for growth or need to consolidate business debt should consider a lower interest, fully amortized SBA 504 loan. SBA 504 refinancing is designed to provide additional capital to small business and to create jobs by providing access to flexible, long-term fixed-rate financing.

The SBA has recently made key changes to SBA 504 refinance rules in order to help qualify more borrowers and encourage more lender participation:

CHANGE	OLD STANDARD	NEW STANDARD	BENEFITS TO BORROWER	BENEFITS TO CREDIT UNION
SBA debenture cap (no expansion)	SBA debenture limited to 50% of total refinance	SBA debenture can be up to 40% of full project cost , using standard 50-40-10 split	Can access full benefits of SBA 504 structure without needing expansion	Enables more loans without needing new property purchases: easier approvals
LTV increased to 90% (no expansion)	LTV capped at 85%	Now allowed up to 90% LTV	Lower equity requirement, better leverage, improved cash flow	Safer credit union position (still 50%); expands eligible borrower pool
Cap on Eligible Business Expenses (EBEs) Removed	Capped at 20% of project cost	No cap , subject to 90% LTV	Can refinance larger business expenses (payroll, utilities)	Improves borrower liquidity and financial health
“Substantially All” Threshold Defined at 75%	Ambiguously defined or interpreted as 85%	Aligned to 75% matching SBA 7 (a)	More loans qualify for refinance (loans without mixed-use purposes)	Easier underwriting and eligibility determination; more loans
10% Substantial Benefit Test Removed (Government Debt)	Required 10% payment / rate / structure improvement	Test eliminated for refi of SBA or government debt	Easier to refinance 7(a) or 504 loans even with minor benefit	Lenders can offload variable rate loans; retain clients in safer structure
“Other Secured Debt” as Eligible Business Expense	Not allowed as part of EBE	Certain secured, non-fixed -asset debt allowed	Can consolidate more debt types (e.g., equipment loans, vehicle loans, secured lines)	Encourages holistic refinancing: helps clean up borrower balance sheets

Source: <https://cdcloans.com/sba-504-refinance-rule-changes-broken-down>

The following requirements must be met:

- Payments on the existing loans must be current during the past 12 months
- The existing debt must be at least **6 months** old
- 75% or more of the original debt must have been used for SBA-eligible purposes
- The business must be a U.S. based for-profit company that is at least 51% owner-occupied, have a tangible net worth of under \$20 million and an average net income of less than \$6.5 million for the past 2 years.

PART THREE:

WHY SBA 504 LENDING IS CRITICALLY IMPORTANT FOR CREDIT UNIONS

Mission-aligned lending: The 504 program allows credit unions to support businesses within their communities, aligning with their cooperative mission. Credit unions can extend their reach to a broader segment of the small business market, including those who may not otherwise qualify for financing.

“SBA 504 lending offers credit unions the following strategic advantages by aligning with their growth and risk management priorities:

- **Lower Risk:** A credit union can protect its balance sheet through SBA 504’s second-lien funded by CDC and guaranteed by the SBA program. The subordinate lien position helps credit unions reduce the first-lien risk.
- **Community Investment:** SBA 504 loans are mission-aligned for credit unions, whose objective is to support their members and provide credit to small businesses and fund community-focused projects.
- **Expand Market Reach:** The program enables credit unions to expand market reach by lending to members and underserved small business segments who might not otherwise access credit union financing.
- **Portfolio Stability:** SBA 504 loans strengthen the credit union’s portfolio quality by ensuring smooth earnings at lower risks.
- **Operational Efficiency:** Seasoned credit union service organizations such as AVANA CUSO help credit unions eliminate the need to build in-house SBA infrastructure by engaging an experienced team who can handle intricate details.”³ (More about AVANA CUSO in Part Four of this paper.)

“Credit unions today face pressure to expand their lending portfolios without incurring additional risk. SBA 504 loans enable credit unions to foster risk-averse growth by financing owner-occupied commercial real estate. They create opportunities for credit unions to expand lending activities, and create new small business relationships by leveraging this government-backed program.”

- AVANA CUSO

The SBA 504 Advantage: How Credit Unions Can Thrive in Today’s Shifting CRE Lending

Landscape. The commercial real estate (CRE) lending environment has undergone a profound transformation—one that many credit unions have yet to fully recognize. Conventional CRE loans now carry interest rates ranging from 5.63% to 13%⁴, while SBA 504 loans continue to offer rates significantly below that range, coupled with longer amortization periods and stable terms.

This isn’t just a temporary market shift—it’s a structural change that’s driving record-breaking demand for SBA 504 financing. Businesses that once depended on conventional CRE loans are realizing that the 504 program provides lower costs, longer repayment horizons, and greater

³ “How SBA 504 Loans Can Drive Strategic Growth for Credit Unions” October 14, 2025, <https://avanacuso.com/insights/>

⁴ <https://www.commercialloandirect.com/commercial-rates.php>

flexibility. Even if the Federal Reserve implements rate cuts in 2026, it's highly unlikely that commercial loan rates will ever return to their pre-2022 lows. Meanwhile, SBA 504 loans remain insulated from market volatility, maintaining consistently attractive rates that give them a lasting competitive edge.⁵

A Growing Demand—and a Limited Supply of Qualified Lenders. The SBA 504 market is expanding rapidly, yet the number of lenders equipped to handle this demand remains relatively small. Many credit unions either lack experience with the 504 program or don't have the infrastructure to manage it efficiently. This creates a significant opportunity for forward-thinking credit unions to partner with qualified CUSOs, such as AVANA CUSO, and gain entry into this underserved but growing market. By participating in SBA 504 lending, credit unions can stand apart from traditional lenders. Instead of competing head-to-head on rates and terms, they can offer a premium financing solution in a less crowded market, where differentiation comes from value, service, and expertise.

“From auto and commercial loans to mortgages and home equity loans, credit unions have continued to find ways to grow and support members in the communities they serve. While Small Business Administration (SBA) loans were historically untouchable for credit unions, they are now a valuable option worth exploring. These government-guaranteed loans can open the door to a new membership base, providing a low-risk source of interest income while nurturing growing businesses in your local community.”

**- DoerenMayhew CPAs
April 17, 2025**

Building Long-Term Relationships Through SBA 504 Lending. Beyond competitive advantages, SBA 504 lending helps credit unions build deep, relationship-based business that leads to long-term member loyalty. Companies that finance their real estate through SBA 504 loans often return for future funding needs—creating a recurring, annuity-like stream of revenue.

Moreover, SBA 504 lending thrives on referral-driven networks. Real estate brokers, accountants, and business advisors routinely recommend lenders who deliver efficient, member-focused service. By offering smooth, responsive closings, a credit union can become the trusted partner of choice within these professional circles—fueling a steady flow of new referrals without the need for heavy marketing investment.

Expanding Safely into New Markets. With the stability of government backing and standardized guidelines, SBA 504 loans empower credit unions to expand into

new regions with confidence. In many smaller or underserved markets, SBA expertise is limited—creating a prime opportunity for forward-thinking credit unions to establish regional leadership, strengthen their brand presence, and grow responsibly while effectively managing risk. The NCUA encourages credit union participation in SBA 504 lending. In fact, the more-restrictive collateral and security requirements of the Member Business Lending rule (12 C.F.R. §723.3 and §723.7) do

⁵ <https://sb-fi.com/why-sba-504-loans-are-about-to-explode-and-how-to-capture-the-wave/>

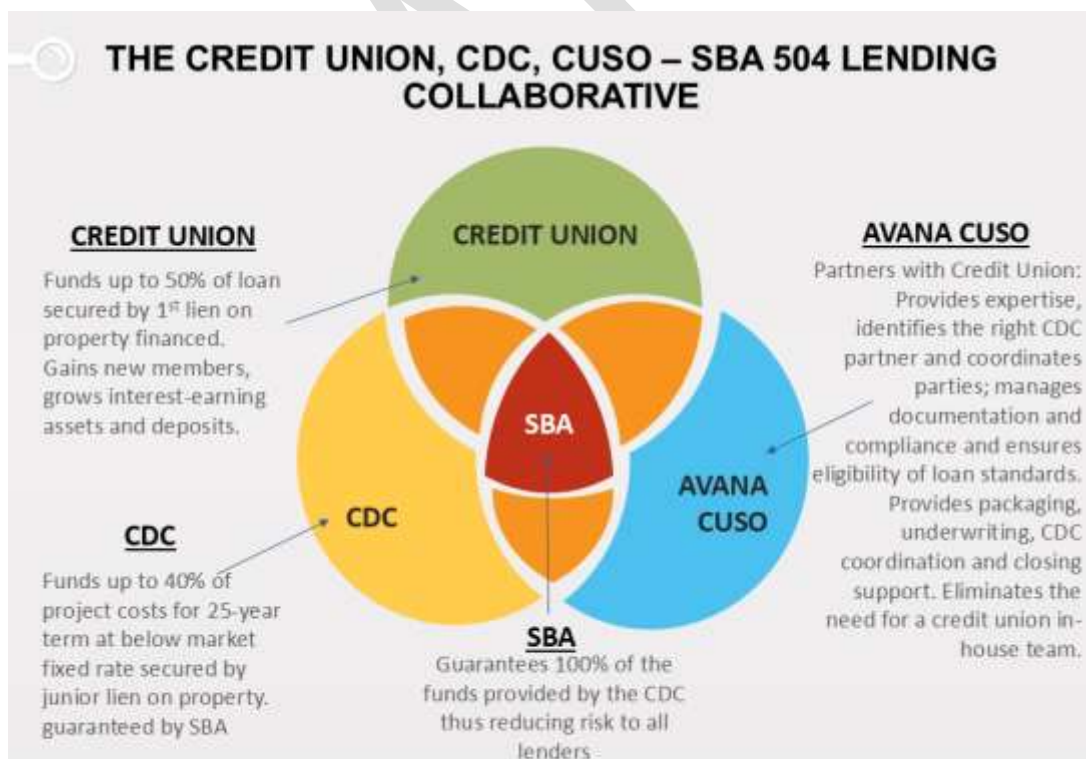
not apply to member business loans made as part of a Small Business Administration guaranteed loan program.⁶

PART FOUR:

How AVANA CUSO Simplifies SBA 504 Lending for Credit Unions



Introducing the power of CRE lending collaboration: the Credit Union, the CDC and the AVANA CUSO. Established in 1998, AVANA CUSO is an award-winning Credit Union Service Organization and has been a proud member of the AVANA Family of Companies since 2020. As part of AVANA Companies—an Arizona-based asset management platform founded in 2002—AVANA CUSO is driven by a shared vision of Building Capital for a Better Tomorrow™ through economic growth, job creation, and sustainable community investment. Simply stated, AVANA CUSO does the heavy lifting for its credit union partners.



THE POWER OF COLLABORATION FOR MISSION-DRIVEN SOCIAL IMPACT FINANCING

⁶ NCUA Collateral and Security Requirements for Small Business Administration (SBA) 504 Program Loans, 09-0661, August 2009

AVANA CUSO simplifies the SBA 504 Process and empowers credit unions for mission-driven growth. AVANA CUSO empowers credit unions to expand into SBA 504 lending confidently and efficiently with solutions that allow the credit union team to focus on member relationships — while the CUSO manages the operational complexity behind the scenes.

AVANA CUSO has worked with over 200 credit union partners and 80 active portfolios today and AVANA CUSO's team has delivered \$5 billion in SBA financing. AVANA CUSO is among the nation's most experienced CUSOs specializing in SBA 504 lending. Through end-to-end customer service, advanced technology, and a deep network of partners, AVANA CUSO connects credit unions with commercial real estate entrepreneurs, brokers, and small business owners. Their mission is simple yet powerful: to help credit unions diversify and expand their lending portfolios, mitigate concentration risk, and strengthen loan-to-share ratios all while driving meaningful community impact. The AVANA CUSO team believes lending is more than a transaction; it's an opportunity to fuel growth, grow deposits, create jobs, and build stronger, more vibrant communities.

"We understand every credit union has unique needs, which is why we've developed a personalized solution that allows them to select specific services."

Our goal is to help credit unions scale and grow sustainably by providing the exact tools they need when they need them."

**- Brianna Vaughan, CUDE
EVP Credit Union Success
AVANA CUSO**

How AVANA CUSO Helps Reduce Challenges Credit Unions Face with SBA 504 Lending.

AVANA CUSO is experienced in helping credit unions support member-driven commercial real estate projects by originating competitive, customizable financing solutions, such as:

- ✓ **Strategic Loan Sourcing:** Through AVANA CUSO's national network of CRE and SBA brokers, they source qualified loan opportunities that align with the credit union's specific lending parameters.
- ✓ **Flexible Support Options:** From packaging and underwriting to closing and servicing, AVANA CUSO offers both full-service SBA 504 outsourcing and à la carte support tailored to each credit union's unique needs.
- ✓ **Seamless Coordination:** AVANA CUSO's experienced team manages communication with the SBA and CDCs to ensure every deal moves forward efficiently, from origination through post-close compliance.
- ✓ **Regulatory Assurance:** With an NCUA-ready servicing platform and deep regulatory expertise, AVANA CUSO helps each credit union partner maintain confidence and compliance in every transaction.

AVANA CUSO takes the complexity out of SBA 504 lending. The commercial lending landscape has changed for good. Credit unions that embrace SBA 504 lending today are positioning themselves to lead in the next era of CRE financing—one defined by stability, partnership, and sustainable growth.

SBA 504 loans give credit unions a powerful pathway to expand mission-based lending, diversify portfolios, and strengthen community impact — all while protecting balance sheets through government-backed participation.

AVANA CUSO supports credit unions at every stage of their SBA 504 journey — whether they are just getting started, scaling their program, or optimizing for efficiency. With AVANA CUSO's comprehensive support and proven expertise, credit unions can deliver greater value to their members and their community.

AVANA CUSO DOES THE HEAVY LIFTING.

SBA 504 lending offers credit unions an exceptional opportunity to expand their commercial real estate portfolios while supporting local business growth. However, the program's complexity often presents operational challenges that can slow execution and strain internal resources. These common challenges – such as those listed below – are managed and resolved by AVANA CUSO for their partner credit unions:

- 1. Coordinating Multiple Parties.** Unlike conventional commercial real estate transactions, SBA 504 loans require collaboration among three key entities — the SBA, a CDC, and the credit union. Effective communication and coordination across all parties are critical to ensure smooth processing and timely closings.
- 2. Choosing the Right CDC Partner.** Not all CDCs operate with the same efficiency or expertise. Partnering with an experienced, responsive CDC can significantly accelerate approvals and prevent deal delays. AVANA CUSO can select the best CDC for any SBA 504 transaction.
- 3. Navigating Documentation and Compliance.** SBA 504 lending involves detailed documentation, strict disclosures, and rigorous adherence to federal guidelines. Even small errors or omissions can result in time-consuming delays or jeopardize loan approval.
- 4. Meeting Eligibility Requirements.** Each SBA 504 loan must meet stringent borrower and project eligibility standards. Understanding and structuring deals correctly from the start is essential to avoid last-minute complications.
- 5. Preventing Deal Stagnation.** Transactions can easily stall without the right packaging expertise, proactive communication, or ongoing engagement with the CDC.
- 6. Limited In-House Expertise.** Many credit unions lack dedicated SBA specialists. Building this expertise internally requires time, training, and financial investment — all of which can slow program growth. AVANA CUSO eliminates the need for credit unions to build and manage internal SBA teams.

The SBA 504 surge isn't a trend, it's a transformation. Conventional CRE lending faces ongoing pressure, while SBA 504 loans provide the certainty, liquidity and community impact that credit unions were built to deliver. Through SBA 504 lending, credit unions will help their member base create wealth, help create job opportunities in their communities, grow a portfolio of low-risk commercial real estate loans and grow deposits.

AVANA CUSO has helped credit unions and borrowers overcome size, equity, and fee hurdles to close complex deals faster and smoother. The following examples illustrate how AVANA CUSO guides their credit union clients through the SBA 504 lending process by providing training, structuring, packaging and processing, CDC selection and coordination, credit underwriting and closing:

1. Hilton Garden Inn - Lynnwood, WA

- Total Project: \$29,600,000
- Key challenge: project size
- AVANA's solution: Increase size of 1st mortgage
 - \$17,786,000 – 1st Mortgage (60%)
 - \$5,350,000 – SBA 2nd Mortgage (18%)
 - \$6,464,000 – Owner equity (22%)



2. Ultimate Flooring 29,250 SF warehouse building – Houston, TX

- Total Project: \$2,482,000
- Key Challenge: Borrower well established in Los Angeles (since 2013) but new to Houston market.
- AVANA's solution: 15% down payment as start up
 - \$1,241,000 – 1st Mortgage (50%)
 - \$868,700 – SBA 2nd Mortgage (35%)
 - \$372,200 – Owner Equity (15%)
- LA Company provided guarantee



3. Staybridge Suites – Charleston, SC

- \$8,225,000 1st Mortgage
- \$5,000,000 SBA 2nd Mortgage
- Key Challenge: CDC charging 1.00% servicing fee
- AVANA's solution: Inform borrower and broker and CDC dropped fee to 0.625%
 - Save over \$325,000 for borrower over the 25-year life of the loan



It is important to note that AVANA CUSO's SBA 504 support is focused on acquisition and refinancing of owner-occupied commercial real estate, across asset types such as industrial, medical office, retail, self-storage, manufacturing facilities, franchised hospitality, and franchised restaurants. AVANA CUSO's role is to help credit unions participate confidently in these transactions by handling the complex parts- structuring, packaging, underwriting, closing coordination, and ongoing servicing to the credit union's team can focus on member relationships while AVANA ensures each loan meets SBA program requirements.

SUMMARY

With deep domain experience derived from over \$5 billion in closed transactions, AVANA CUSO is the credit union partner for smooth, compliant, and successful SBA 504 loan closure and servicing. The Team guides their credit union clients completely through the process resulting in fewer surprises and faster loan closing. AVANA CUSO's a la carte service offerings span five key areas: loan origination, lending and credit administration, loan servicing, loan participation, and portfolio management.

"We understand every credit union has unique needs, which is why we've developed a personalized solution that allows them to select specific services. Our goal is to help credit unions scale and grow sustainably by providing the exact tools they need when they need them." -**Brianna Vaughan, CUDE, Executive Vice President of Credit Union Success, AVANA CUSO.**

For additional information about how AVANA CUSO can partner with your credit union, please visit <https://avanacuso.com> and /or contact:

**Brianna Vaughan, CUDE
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