

How Credit Unions Can Serve the Real Estate Financing Needs of Younger Business Owners

CUinfluentialSM | COLLABORATION CENTRAL

The Credit Union Industry's Premier Showcase for CUSOs and non-CUSO Service Providers
www.cuinfluential.com

America's small business landscape is undergoing a profound structural shift driven by two converging forces: a generational transfer of ownership on an unprecedented scale, and an accelerating demand for attractive real estate financing among younger, established business owners. At the same time, America's credit unions are in desperate need of younger members. This paper introduces the SBA 504 program as a sustainable, risk-mitigated growth solution for business owners and credit unions alike.

Key Takeaways:

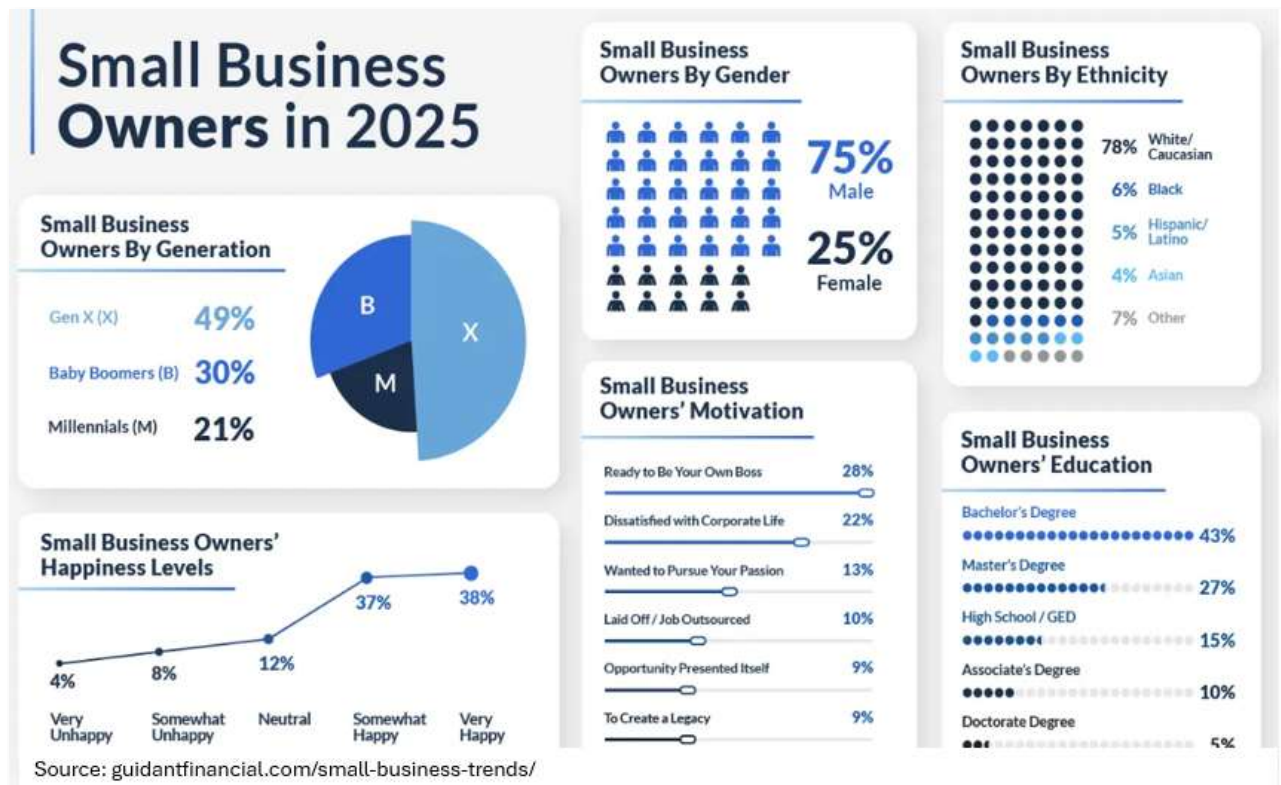
- More and more Baby Boomers are passing the torch of business ownership, creating space for Millennials and Gen X to step in and continue their legacy.
- The exodus of retiring baby boomers coupled with the increase in younger small business owners creates a rapidly growing opportunity for credit unions to acquire new Gen Z, Millennial and younger Gen X members.
- A significant segment of small business owners who leveraged SBA 7(a) financing to establish their operations are now positioned to acquire commercial real estate through the SBA 504 loan program to build equity and ensure the long-term stability of their business or expand their footprint.
- SBA 504 lending provides credit unions with risk-mitigated loan portfolio growth while satisfying financing needs of younger business owners.
- AVANA CUSO is an experienced SBA 504 facilitator for credit union member acquisition, loan and deposit growth.

The Generational Shift of Business Ownership

Small businesses are the lifeblood of our economy, making up over 99% of all firms and providing more than half of private sector jobs. According to the Harvard Business School, Guidant Financial and multiple other sources, locally owned businesses circulate three times more money back into the local economy than absentee-owned firms or corporate chains. And local businesses are based on local relationships, fostering trust and civic engagement.

More than half of all privately held businesses in America – millions of companies – now have owners over age 55, according to the U.S. Census Bureau, meaning many of those owners are ready to retire. Metaphorically referred to as the “Silver Tsunami,” this phenomenon refers to the large, powerful, and overwhelming scale of this generational shift as Baby Boomer business owners (those born between 1946 and 1964) transition into retirement and old age.

“The numbers are alarming. There are 2.9 million U.S. businesses with owners over 55 ... These companies employ roughly 32.1 million workers, shell out about \$1.3 trillion in annual payroll and earn about \$6.5 trillion in revenue each year”.¹



Baby Boomers, who shaped the entrepreneurial landscape for decades, are now down 18% in ownership share from last year and currently represent 30% of small business owners. Meanwhile Gen X holds 49% of ownership, and Millennials have seen a 25% jump in ownership share, now making up 21% of small business owners.²

Many of these younger owners who financed their small business startup or acquired their business from a retiring former owner, now need credit unions to be their financial partner in the next phase of business ownership – the purchase and ownership of real estate for their business operations.

Small Business Owners Need Financing for Growth

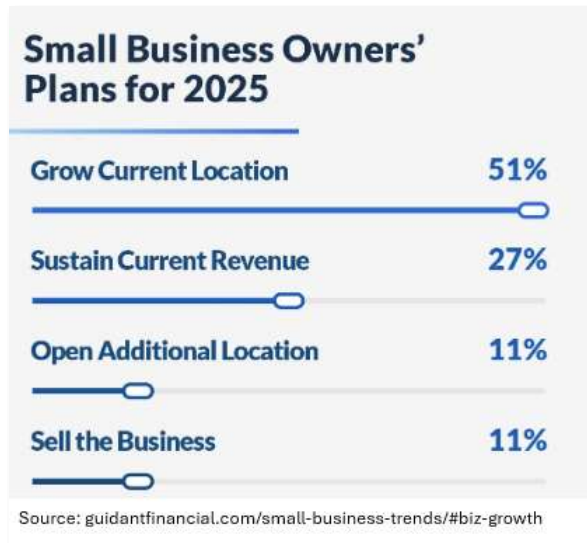
Despite the challenges of business ownership, entrepreneurs are pushing forward – and many are seeing success. As Guidant Financial reported in 2025, 64% of business owners report being profitable, showing that even in uncertain economic times, small businesses are finding ways to thrive.

¹ Harvard Business School, <https://www.hbs.edu/big/silver-tsubani-employee-ownership>

² A “Look at the State of Small Business in 2025” -<https://www.guidantfinancial.com/small-business-trends>

Growth is also on the horizon. More than half (51%) of business owners plan to expand their operations, whether by increasing sales, scaling production, or launching new services. Hiring is a

key part of that growth, with 24% planning to bring on new employees...Growth remains the name of the game, with just over half of business owners planning to expand their current location, service, or website this year. Some are going even bigger, with more than one in ten looking to open an additional location.



But it's not all about hiring and advertising – many business owners are pouring resources into their physical spaces, with a significant number planning renovations, remodels, or location expansions (17%). For both transitioning owners and growth-stage entrepreneurs, access to the right capital – structured appropriately and deployed

strategically – is not merely an advantage. It is a prerequisite.³

SBA 504 Lending: The Optimal Vehicle for Growth Financing

Overview: SBA 504 loans feature a capital-efficient structure: a 10% borrower equity contribution, long-term fixed-rate financing, and a 50% first-lien position for the lender, complemented by a 40% SBA-guaranteed subordinate lien.

An SBA 504 loan uses a 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 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 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.

³ www.guidantfinancial.com/small-business-trends/#biz-growth

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 fixed for the full term of the loan. The rate is priced monthly via debenture sale. The most recent rate for SBA 504 debentures (April 2026) was 5.94% fixed for 25 years. The interest rate on the Credit Union portion is set by the lending credit union and typically has rate adjustments every 5 years.

Collateral: The property being financed serves as collateral. In some rare cases, the 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 45-90 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 real estate purchase.
- The proposed project must create or continue a certain number of jobs or meet SBA public policy goals.⁴

SBA 504 loans are purpose-built to support owner-occupied commercial real estate and major equipment acquisitions. They enable business owners to transition from leasing to ownership—preserving cash flow, building equity, and securing long-term occupancy costs. This shift represents a critical inflection point in the lifecycle of a business.

The SBA 504 Loan Program is a long-term, fixed-rate financing program designed to help small businesses acquire real estate. It is administered by the U.S. Small Business Administration (SBA) in partnership with lenders and nonprofit development companies. SBA 504 loans are designed for

⁴ <https://www.nerdwallet.com/business/loans/learn/sba-504-loans>

fixed asset purchases that support business growth and job creation. Here's what they can be used for:

Real Estate

- Purchasing existing buildings
- Constructing new facilities
- Renovating or improving existing facilities

Equipment & Machinery

- Long-life machinery and equipment (generally with a useful life of 10+ years)
- Manufacturing equipment, heavy machinery, restaurant equipment, medical equipment, etc.

Soft Costs (related to the project)

- Title insurance, appraisals, environmental studies
- Architectural and engineering fees

SBA 504 loans offer long-term, fixed-rate financing with low down payments, allowing credit unions to support small business building purchase or renovation financing needs while managing risk. Structured appropriately, these loans provide credit unions with predictable cash flow, collateral security, and strong member engagement opportunities.

What 504 loans CANNOT be used for:

- Working capital or inventory
- Rental real estate (investment properties not occupied by the borrower)

Key requirement: The borrower's business must **occupy at least 51%** of any purchased building (or 60% of newly constructed space), making it owner-occupied commercial real estate financing.

The 504 program is particularly popular for commercial real estate because it offers below-market fixed interest rates and low down payments (as little as 10%).

SBA 504: Strategic Advantages for Long-Term Business Growth

Business financing typically follows a predictable progression. Entrepreneurs—whether acquiring a company or scaling an existing operation—often begin with an SBA 7(a) loan due to its flexibility. The 7(a) program supports a broad range of needs, including acquisitions, working capital, leasehold improvements, inventory, and equipment. As a result, it is frequently the first financing solution offered by lenders and the initial entry point for many borrowers.

However, as businesses stabilize and mature, financial priorities evolve. The focus shifts from flexibility to efficiency, predictability, and long-term value creation. At this stage, SBA 504 lending becomes a strategic solution.

SBA 504 loans are purpose-built to support owner-occupied commercial real estate acquisitions. They enable business owners to transition from renters to owners—preserving cash flow, building equity, and securing long-term occupancy costs. This shift represents a critical inflection point in the lifecycle of a business.

The rationale is straightforward. While SBA 7(a) loans often carry variable interest rates tied to market conditions, SBA 504 loans offer below-market, fixed-rate financing with longer amortization periods. For established businesses, this translates into greater cash flow stability, reduced interest rate risk, and improved long-term financial planning.

The transition from 7(a) to 504 reflects a broader evolution—from short-term flexibility to long-term strategic positioning. For credit unions, supporting this progression enables deeper member relationships, stronger portfolios, and a more meaningful role in driving sustainable business growth.

For established owners focused on growth, the SBA 504 program provides a cost-effective way to finance real estate without draining working capital. With as little as 10% down and fixed rates extending up to 25 years, the business owner can gain predictability, improved cash flow and protection from rising interest rates.

SBA 504 loans use a financing structure that keeps the borrower's out-of-pocket costs low — typically just 10% down which allows borrowers to retain more of their working capital for other expenses.

SBA 504 loans help business owners move beyond short-term flexibility and into long-term financial strength.

A Strategic Upgrade:

The 7(a) is the startup/acquisition tool; the 504 is the long-term asset-building tool. Credit Unions who specialize in SBA lending actively look for this opportunity — an established 7(a) borrower with a healthy track record is often an ideal 504 candidate when they're ready to own their building or make a major equipment investment.

The Credit Union Growth Opportunity

Credit unions increasingly understand that their future depends on attracting younger members—especially those in Generation Z, Millennials, and the younger edge of Generation X. Today, nearly 70% of credit union members are Gen Xers, Baby Boomers or older. According to Raddon, an even more striking 75% of all deposits are held by Baby Boomers and beyond.⁵ Put simply, the bulk of the industry's deposit wealth resides with a generation that is now retiring—and many are actively planning to pass on family wealth.

To remain relevant, credit unions simply must attract and retain younger members. Hidden in the wave of the “Silver Tsunami” is the opportunity for credit unions to serve the real estate financing

⁵ <https://www.cutimes.com/2023/05/30/what-do-credit-unions-need-to-attract-millennials-gen-z/>

needs of younger business owners while building a risk-mitigated loan portfolio of small business members – a strategy that has clearly demonstrated significant growth opportunities for interest income, fee income from additional business services, and consumer loan and deposit growth from employees of member businesses.

With the right strategy, credit unions can turn a demographic shift into a powerful moment to serve members more fully while strengthening long-term financial stability.

More credit unions are embracing small business. According to NCUA, the credit union industry's commercial loan portfolio including unfunded commitments has nearly doubled in the last five years to just over \$200 billion.⁶ Through SBA 504 lending, credit unions can promote business growth by financing the purchase of business equipment, buildings and/or real estate for a growing wave of Gen Z, Millennial, and younger Gen X borrowers who are eager to grow and expand their livelihood and that of their employees.

AVANA CUSO - a Unique Credit Union SBA 504 Growth Partner

AVANA CUSO helps credit unions participate in SBA 504 lending by managing the operational and administrative aspects of the process. This allows credit union staff to focus on member relationships and day-to-day business activities without taking on significant additional workload.



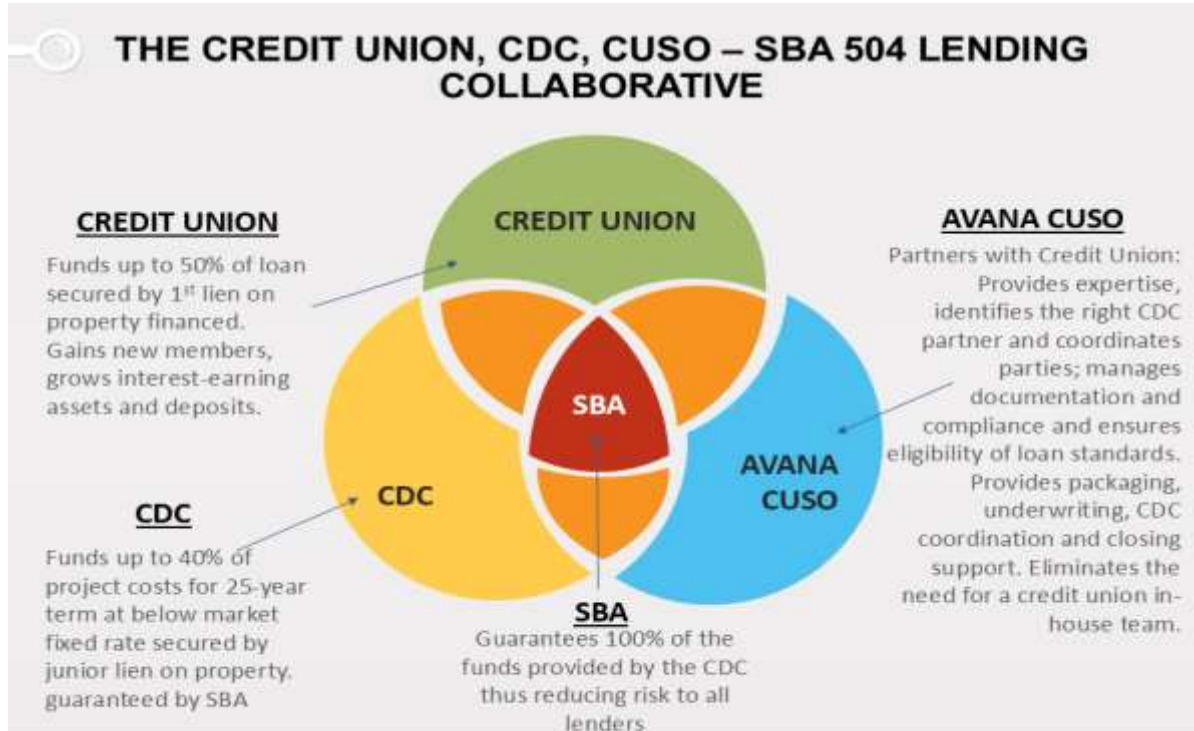
How AVANA CUSO Helps Reduce Challenges Credit Unions Face with SBA 504 Lending.

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.

⁶ NCUA Quarterly Credit Union Data summary, 2025 Q4

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.



THE POWER OF COLLABORATION FOR MISSION-DRIVEN SOCIAL IMPACT FINANCING

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.

With more than 200 credit union partners, 80 active portfolios, and \$5 billion in SBA 504 financing delivered, AVANA CUSO stands as one of the nation’s most experienced SBA 504 specialists. Their end-to-end service model, advanced technology, and expansive partner network seamlessly connect credit unions with commercial real estate entrepreneurs, brokers, and small business owners ready to grow.

The mission is clear: help credit unions expand and diversify their lending portfolios, reduce concentration risk, and strengthen loan-to-share ratios—all while making a lasting impact in the communities they serve. At AVANA CUSO, lending goes beyond transactions. It’s about fueling opportunity, driving deposit growth, creating jobs, and helping communities thrive. 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:

AVANA CUSO SBA 504 Collaboration Examples

➤ 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%)



➤ 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



It is important to note that AVANA CUSO's SBA 504 expertise 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 overseeing 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 and Call to Action

A generational shift is reshaping business ownership as small business owners across the country are entering a pivotal new phase of growth. Many who relied on SBA 7(a) loans to launch and sustain their operations have built the financial track record and operational foundation necessary to take their next strategic step. Having established stability and demonstrated financial viability, these owners are now actively seeking to expand their physical presence — acquiring commercial real estate that will anchor their businesses for the long term.

These are younger, experienced operators with proven repayment histories, clear growth objectives, and a demonstrated commitment to their communities. Their transition to SBA 504 financing not

only strengthens their own balance sheets — it deepens economic roots in the local markets they serve. For financial institutions positioned to support this transition, the opportunity is significant.

For credit unions, this presents a strategic opportunity to attract and serve Gen Z, Millennial, and Gen X entrepreneurs through the disciplined use of SBA 504 lending. This government-supported program enables the financing of owner-occupied commercial real estate and equipment, offering a risk-mitigated and cost-effective pathway to support business acquisition and expansion. There is a strong alignment of purpose. Credit unions are inherently mission-driven, focused on strengthening the communities they serve. SBA 504 lending directly advances this mission by empowering small business owners to acquire or improve facilities, invest in equipment, and scale operations—fueling job creation and local economic growth. Importantly, the program expands access to capital for underserved segments, including entrepreneurs with limited liquidity, through its lower equity requirements and extended amortization structure. This enhances both financial inclusion and long-term community impact.

The SBA 504 loan program is uniquely positioned to meet this demand, offering below-market, fixed-rate financing designed precisely for these types of capital investments. This natural progression from startup financing to long-term asset acquisition reflects both the maturation of the borrower and the evolution of their strategic ambition. This borrower segment represents a compelling and timely opportunity for credit unions.

Partnering with a highly experienced Credit Union Service Organization can significantly simplify and expedite the SBA 504 lending process. AVANA CUSO enables credit unions to fully capitalize on this opportunity. By providing comprehensive, end-to-end support across the SBA 504 lifecycle, AVANA CUSO removes operational complexity and execution risk. The outcome is a scalable growth strategy that benefits all stakeholders: retiring business owners seeking succession solutions, a new generation of entrepreneurs pursuing ownership, and credit unions expanding their member base and lending portfolios.

According to AVANA CUSO’s Executive Vice President of Credit Union Success Brianna Vaughan, “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.”

With more than 200 credit union partners and over \$5 billion in delivered SBA financing, AVANA CUSO is among the industry’s most experienced providers specializing in SBA 504 lending. Its deep domain expertise ensures a streamlined, compliant process from origination through servicing, resulting in greater efficiency, fewer execution challenges, and faster loan closings. Flexible, a la carte solutions span loan origination, credit administration, servicing, participation, and portfolio management—providing credit unions with the infrastructure needed to scale with confidence.

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

Brianna Vaughan, CUDE
EVP – Credit Union Success
AVANA CUSO
brianna.vaughan@avanacompanies.com | 818.836.6313