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Temporary SBA 504 Refinancing Program Provides Capital for Small Businesses

Recognizing the dilemma faced by small businesses as a result of the contraction in the credit markets, the Small Business Administration (SBA) has temporarily modified its 504 Program to allow the refinancing of existing debt and the use of the equity in the property for long-term working capital needs.

Small businesses have historically had limited access to long-term financing at attractive interest rates. As a result, many elected to finance long-term projects or long-lived assets with short-term balloons in anticipation the lender would renew the balance at maturity on similar terms. The recent financial crisis and economic downturn caused many businesses to scramble as their commercial mortgages matured, but their renewal was not assured. Additionally, such short-term financing often creates havoc in budgeting, planning for long-term growth and effectively allocating scarce financial resources. This new SBA refinance program is designed to meet the long term financial needs of small businesses

Program Benefits

This program enables small business owners to refinance existing debt with a long term loan. If property owners have more than 10 percent equity in their property, these individuals can also borrow against that equity for their working capital needs. SBA 504 loans are funded by the sale of 10-year and 20-year bonds guaranteed by the SBA. Thus, this type of loan has an interest rate that is generally lower than market. Recent interest rates have been as low as 5.04 percent for a 20-year SBA 504 refinancing loans.

Program Eligibility

A small business must have been in existence at least two years before the loan application is received by the SBA. It must be for-profit and have a tangible net worth of less than $15 million and an after tax profit of less than $5 million for the previous two years. The small business must currently occupy at least 51 percent of the existing commercial real estate to be refinanced, and the property must have been acquired at least two years ago with debt. In addition, borrowers must demonstrate that the loan is current and that they have not made any payments more than 30 days after the due date under original or modified bank terms for the past twelve months. Such modifications of terms must have been entered into prior to October 12, 2011.

Program Features

Loans under this temporary 504 refinance program are structured like traditional 504 loans. With a traditional 504 loan, a bank provides up to 50 percent of the project cost and holds the first lien position. A Certified Development Company (CDC) provides up to 40 percent of the project cost and takes a secondary position to the bank loan. The small business borrower must provide equity of as little as 10 percent. The amount of the bank loan must be at least as much as the 504 loan.

While there is no limit on project size, the 504 loan is limited to $5 million maximum for the majority of refinance projects just as with the regular 504 program. The upper loan limit increases to $5.5 million for eligible manufacturing projects and projects that incorporate energy saving technologies.

The project structure is based on the current appraised value of the collateral, and up to 90 percent of this value may be refinanced.

Refinancing a $1,100,000 Note With Cash Out For Working Capital

Current Appraised Value of Property	$1,400,000	
New Maximum Outstanding Balance of Debt	$1,260,000	90% LTV

Loan Structure

Entity	*Loan Amount*	*% of Loan*	*Security*
■ New Bank First Trust Loan	$ 700,000	50%	1st Lien
■ New CDC/SBA 504 Loan	$ 560,000	40%	2nd Lien
■ Borrower contribution (equity)	$ 140,000	10%	

Appraised Value of Property:	**$1,400,000**
Existing Note Payoff:	**$1,100,000**
Cash out for Working Capital:	**$160,000**

A huge benefit of the SBA 504 refinance loan is that small business owners are able to refinance their existing debt and use excess equity to obtain long-term working capital for payment of eligible business expenses. These expenses can include items such as rent, utilities, inventory, and other business obligations.

For more information on this new debt refinancing program, contact a Certified Development Company in your area. Visit the NADCO website at www.nadco.org for a list of member CDCs that serve every State, as well as Puerto Rico, and U. S. territories in the South Pacific. They will be pleased to meet with you to explain the unique advantages of the program. Act fast; the program expires September 27, 2012, unless Congress acts to extend it.