

SBA offers relief to real estate borrowers

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With all of the recent news concerning low interest rates and their effect on the struggling residential housing market, it is easy to forget that there are many commercial real estate borrowers who could also stand to gain from today's historically low rates.

In hopes of allowing commercial property owners who are facing maturing mortgages or balloon payments to refinance, the U.S. Small Business Administration has temporarily made its Section 504 loan program available for such refinancings.

This is good news for owners who have been unable to find traditional bank loans; however, the program is scheduled to end on Sept. 27.

Commercial property owners who act quickly can potentially lock in a long-term loan at a low fixed interest rate. At today's rates, this program provides a cost-effective way for a small business owner to refinance its owner-occupied real estate. Further, although the process for refinancing a commercial loan with the SBA requires a fair amount of paperwork, it at least provides a dependable method for refinancing, something that has yet to take root in the realm of residential mortgages.

Those familiar with the traditional SBA 504 loan program will recognize the basic ground rules. A business owner wishing to refinance a commercial mortgage on owner-occupied real estate will need to work with a third-party lender and an SBA-approved certified development company to obtain financing.

From there, things begin to look different. Historically, the SBA required a 10 percent/50 percent/40 percent split among the owner, third-party lender and CDC, respectively.

However, under the new program, the third-party lender must merely finance an amount equal to or greater than the SBA-backed CDC amount, thus allowing the business owner to reap the most benefits from a long-term, low-interest rate loan.

To be eligible for the new SBA 504 program, the loan must meet the following criteria.

- The debt being refinanced must have been incurred at least two years prior to the application for refinancing.
- The loan to be refinanced cannot currently be guaranteed by the SBA nor can any payments due on the loan, for the past 12 months, be more than 30 days past due based on the original or modified terms.

- Eighty-five percent of the original loan amount must have been borrowed to purchase or expand fixed assets of the business, including real estate and long-term machinery/equipment.

Fortunately, the SBA decided to do away with one of the original rules of the program, which required that the loan being refinanced have a maturity date prior to Dec. 31. The program is now open to commercial loans that have maturity dates beyond Dec. 31, thus greatly expanding the pool of potential business owners who could benefit.

Interested parties should be aware that the SBA refinancing program does not have the normal SBA 504 job-creation requirements. However, a borrower must either currently have one full-time equivalent employee per \$65,000 of SBA money, or meet one of the SBA's policy goals (e.g., improving the business's cash flow).

If a business owner can meet all of the pertinent criteria as stated above, proceeds from the refinancing may be used to pay any expense that is directly related to the business, including salaries, utilities, insurance, inventory and indebtedness to the business.

However, the proceeds from the refinancing cannot be used for the expansion or purchase of real estate or other fixed assets. In addition, the new loan cannot exceed 90 percent of the current appraised property value of the collateral.

The SBA estimates that close to 8,000 businesses may be eligible to participate in the 504 refinancing program during the current U.S. government fiscal year, which could provide up to \$7.5 billion in SBA-backed financing. Recently, interest rates have been as low as 4.91 percent for 20-year SBA refinancing loans.

Refinancing a commercial mortgage loan at these rates could provide much-needed relief to a small business's cash flow. With no guarantee that the SBA 504 program will be extended beyond Sept. 27, business owners who are eligible are advised to act quickly.

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