Business Loan Refinancing Available

Getting a loan for a small business can be a difficult job, but refinancing an existing loan can also be hard to do. However, for some businesses that meet certain criteria, there is a temporary window of opportunity to accomplish this task.

SBA reports that market research shows that a large percentage of commercial mortgages outstanding are set to mature within the next few years, particularly those held by community banks. As real estate values have declined, however, even small businesses that are performing well and making their payments on time can have a hard time refinancing these loans and may need to restructure their debt.

I visited with Dwayne Lee, Director of Business Development for the 504 Corporation and he explained that “under the Small Business Jobs Act, the SBA has implemented a temporary program—authorized until September 27, 2012—allowing small businesses to refinance eligible fixed assets in its 504 program without requirement of an expansion. This program provides small businesses the opportunity to lock in long-term, stable financing, and finance eligible business expenses as well as protect jobs and hire additional workers.

The SBA summaries the key program features of this temporary program as:

- **Borrowers can finance up to 90 percent of the appraised value of available collateral, which could include fixed assets acceptable to SBA (for example: commercial or residential real property). This allows borrowers with more than 10 percent equity to be able to obtain additional proceeds to pay for eligible business expenses.**

- **Any business with a commercial mortgage that is two or more years old is eligible to refinance its debt, regardless of maturity.**

- **SBA estimates that as many as 8,000 businesses may participate in this program during the current fiscal year, which will provide up to $7.5 billion in SBA-guaranteed financing leading to total project financing of almost $17 billion.**

- **The program, which is completely separate from SBA’s traditional 504 program, is zero-subsidy, requiring no cost to the taxpayer: It will be funded entirely through additional fees assessed for refinancing projects.**

I asked Dwayne to help me understand what the eligible uses of these funds are so that I can help small business owners understand how this works. Here’s how he simplified it for me:

1. **First, to get started, this must be to refinance an existing loan with the following criteria:**
   a. 85% or more of each refinanced loan must have funded real estate or equipment;
   b. Refinanced loan in place for 24 months or longer.
   c. Refinanced loan has been current for last 12 months.
   d. Cannot refinance federally supported loans (eg. SBA USDA, etc.)
2. Then, once one uses funds to refinance the existing loan as described above, a business owner can use the funds for 18 months of operating business needs (excluding the purchase of or expanding of a business). These expenses can include:

   a. Operating expenses- salaries, utilities, etc. Documentation of payments.
   b. Working capital needs- inventory, receivables, etc.
   c. Equipment purchase.
   d. Building improvements expansion on same parcel.
   e. Line of Credit pay down or payoff.
   f. Principal and interest loan payments - excluding federally supported loans.

This new, temporary program could be very helpful to several small business owners. The other great news that Dwayne shared with me is that “the current 20 year fixed rate is about 5%! I encourage those interested to let me know if SCORE can help with this.

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Dean L. Swanson
Southeast Minnesota SCORE
c/o Rochester Area Chamber of Commerce
220 South Broadway, Suite 100
Rochester, MN 55904
*Dean is a volunteer SCORE Mentor and District Director of SCORE Minnesota