



Plentiful Loans for Small Commercial Real Estate

By George Bobo

Lenders have sustained big losses since 2007 on loans to businesses. To their sorrow, Georgia banks depended heavily on making real estate construction and development loans. While big banks have the ability to lend to a diverse base of larger customers, community banks have scrambled to find credit worthy customers to replace their once profitable builders and developers.

To minimize risk, community banks are much more involved in making loans guaranteed by the U. S. Small Business Administration. As a result, SBA guaranteed loans now make up a large part of available bank credit, with 2011 ending a record year of \$30.5 billion worth of SBA supported small business borrowing.

SBA has two principal loan programs. The **7(a) Program** provides loan guarantees to banks making SBA approved loans to purchase land or buildings, to cover new construction and expansion, to finance working capital, purchase equipment, machinery, furniture, and for financing against existing inventory and receivables under special conditions.

SBA's other primary program, called its **504 Loan Program**, provides approved small businesses with long-term, fixed-rate financing to acquire real estate, major equipment, and other fixed assets. 504 loans are made available through CDCs (Certified Development Companies, SBA's community based partners for providing SBA's portion of the loan). CDCs are the middle men between SBA and participating banks.

The current 504 Loan Program has the following terms:

- Certain refinances are eligible until September 27, 2012;
- Borrower must be a business with net worth of less than \$15,000,000 and average net income after income taxes of not more than \$5,000,000 for the past two years;
- At least 51% of the collateral real estate must be occupied by the borrower;

- Loan purpose must be to purchase existing buildings, construct new facilities, renovate existing facilities, purchase long-term machinery, and refinance as outlined below;
- 10% down payment by the borrower (preserves working capital). Startup businesses are acceptable, but with a larger down payment if the business has been in operation less than 2 years;
- Fixed rate loan (no surprise adjustments) - Loan term up to 20 years, amortized;
- Fees: 2.67% on the portion of the loan held by SBA; negotiable fee on the bank portion of the loan, typically 1% to 2%;
- Assumable loan with declining prepayment penalty;
- Fees and most closing costs can be included as part of the loan amount, appraisal permitting;
- Loans up to \$12,000,000 (slightly more for some properties), but typical loans are \$350,000 to \$1,000,000.

Example of 504 Loan structure on a \$1,000,000 transaction:

- \$500,000, 1st lien with bank (loan obtained from a private sector lender covering up to 50% of the total project cost);
- \$400,000, 2nd lien with 504 loan, 20 year, fixed rate (loan obtained through a CDC, funded through an SBA-guaranteed debenture (a form of bond), covering up to 40% of the total project cost);
- \$100,000, borrower contribution (contribution from the borrower of at least 10% of the total project cost)

A Short Window For 504 Refinance Loans

The temporary 504 Refinance Program was created by the Small Business Jobs Act of 2011 and ends on September 27, 2012. The program allows for small businesses to now use excess equity in fixed assets to obtain working capital that can be used for financing eligible business expenses (to pay off or down business line of credit or other business obligations, pay salaries, utilities, inventory).



504 Refinance Details

- The debt to be refinanced is a commercial loan which was incurred not less than 2 years prior to the date of application, including any prior refinancing of the debt;
- Substantially all (85%) of the proceeds of the original debt being refinanced must have been used for 504 eligible purposes (acquisitions, construction or improvement of long-term fixed assets) and the remaining (15% or less) must have been incurred for the benefit of the small business;
- The debt to be refinanced must be secured by eligible fixed assets;
- The project also may include using available equity to pay eligible business expenses;
- The small business must have been in operation for two years or more (no start-ups); and
- The debt refinancing must not involve expansion of the small business (however, this may be eligible under the regular 504 loan program).



Refinance program benefits

The refinance program affords the small business community money savings benefits, including:

- Consolidate existing debt (balloon and/or high interest rate loans);
- Locks in long-term, stable financing, reducing fluctuating expenses;
- Finance eligible business expenses, saving needed cash-flow;
- Protect jobs and hire additional staff, supporting the local economy;
- Include closing costs in the transaction, eliminating cash flow;
- Program ends on September 27, 2012 (temporary program created by Small Business Jobs Act in 2011);
- To refinance up to 90% of the appraised value of available collateral (existing commercial mortgages).

Compared to any other loans available, these are superb terms. While these loans may appear complex to the uninitiated, they are simple in practice and available through a number of banks with coordination through CDCs.

For other details, contact a lender involved in making SBA loans. If you don't know a lender, or to discuss these programs, please contact George Bobo at 404-926-4587. 