

SBA's New Refinance Program a Valuable Tool

[Finance Column](#) Apr 6, 2011

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In February 2010, President Barack Obama announced several new business lending initiatives to help increase access to capital for small-business owners in order to meet specific challenges brought on by the recession, including the refinance program for owner-occupied commercial real estate. This program allows owners to refinance a conventional loan into an SBA 504 loan.

In order to qualify for this temporary, stand-alone program, borrowers must have a loan maturing or ballooning, and loan proceeds must be used to refinance debt secured by 504-eligible assets. All of the original loan proceeds must have been used for the benefit of the small business, and at least 85 percent of the original loan proceeds must have been used for 504-eligible purposes.

Additionally, the third-party loan combined with the SBA loan may not exceed 90 percent of the fair-market value of the fixed assets securing the loans. The third-party lender must finance at least 50 percent of the loan, the SBA 504 loan may finance up to 40 percent, and the borrower must contribute 10 percent, which may be in the form of existing equity. Loans being refinanced must have been current for the past 12 months with no payment being deferred or past due for more than 30 days.

Furthermore, any delinquency on the loan being refinanced that occurs after the approval of the 504 loan but before the SBA funding must be treated as an adverse change in the borrower's financial condition and may result in cancellation of the SBA loan. The 504 loan proceeds must be funded within six months of SBA approval, and the business and the debt to be refinanced must be at least two years old.

Other criteria for the program:

- Job retention is required.
- Independent appraisals are required for all assets pledged as collateral. The reports must be current within six months.
- No loan may be refinanced when a creditor is in a position to sustain a loss. Both the third-party lender and the CDC must certify to having no knowledge of default by the borrower nor knowledge or information that would point to likelihood of default by the borrower.
- No loan may be refinanced that is already part of a 504 loan, nor any loan with an existing federal guaranty.
- Single purpose or special use buildings (hotels, mini-storage) are technically eligible.

At deadline time for this article, the SBA has announced but not yet released new guidelines for this program. Business owners should check www.sba.gov for updated details.