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# Will 2012 Be the Year of SBA Lending?

After a historic year, expectations are high for next year's Small Business Administration loan volume

We're at the end of 2011, and the economy has not yet rebounded from the Great Recession. There's not much good news these days — mostly we hear reports about rising unemployment, declining property values and other depressing statistics. It's not all bleak, however. Commercial mortgage brokers can look to U.S. Small Business Administration (SBA) loan products for increased business.

## The silver lining

An increasing number of mortgage professionals and business owners are turning to the SBA. The good news for your small-business clients is SBA lending is not only increasing, but it also is at all-time high levels.

The SBA's fiscal year ended this past Sept. 30, and this year was one for the record books. In 2011, the SBA supported \$30.5 billion in small-business lending. The previous record, \$28.5 billion, was set in 2007. From 2010 to 2011, SBA lending increased by an impressive 35 percent.

These statistics lead some small-business lending experts to predict that 2012 will be the year of the SBA. SBA lending will continue to do well until conventional small-business lending picks up. This is partially because conventional lending sources haven't completely thawed yet, and SBA lending is readily available. The SBA has been regarded by many as a source of second-class loan products, but with few other options, business owners and mortgage professionals are quickly finding that SBA lending is invaluable.

## A small boost

The two flagship SBA loans — the 7(a) and the 504 — were created to level the playing field for small- and mid-sized-business

owners. The 504, in particular, has gotten increased attention since the passage of the Small Business Jobs Act in September 2010. That law made it possible to refinance commercial debt with a 504 loan. This was great news for small-business owners who bought their commercial property using conventional financing and were given a second chance. Many small-business owners have been able to get control over their real estate expenses with the long-term, below-market, fixed-rate financing that the 504 loan provides.

Although the 504 refinance program has the potential to help small businesses get back to growing and creating jobs, it's fallen short so far. Although it was established in September 2010, it wasn't until this past February that the rules governing the program were rolled out. Some of these regulations were so restrictive that rejection rates were high. For fiscal year 2011, \$7.5 billion was set aside for 504 refinances, but only about \$270 million (roughly 3 percent) were put to use. Another \$7.5 billion is allotted for fiscal year 2012, and recent developments likely will make it possible to use more of these allotted funds.

## New life for the 504 refi

This past Oct. 12, the SBA announced several changes to the 504 refinance program. Two changes in particular opened the program to more small-business owners and will allow more uses for 504 refi proceeds.

Proceeds from an SBA 504 refinance can now be used for itemized business expenses, like salaries, rent utilities, inventory, paying down payables and other business obligations. This is essentially the cash-out refi option that was mentioned in the original law, but it only now has become

a reality. It will allow those business owners who bought property a few years ago to tap their equity as a source of working capital — something that's in short supply from conventional lenders today.

The second meaningful change addresses business owners who have loan deferments and/or modifications on their commercial real estate mortgage. As long as they have not been past due on these newly modified terms, these business owners are now eligible for 504 refinancing.

Here's a quick rundown of the 504 refi program eligibility requirements, including these new changes. Refinance proceeds now can be used for:

- **Owner-occupied commercial real estate;**
- **Machinery and equipment;**
- **Itemized business expenses; and**
- **Closing costs associated with the project.**

The loan being refinanced must have been current for the past year with no past-dues of more than 30 days. Loan deferments and/or modifications are now eligible for refinancing as long as the borrower is current on the modified terms. Before the refinance can be applied for, the debt must have been in place at least two years, and the small business must have been in business at least two years.

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The borrower's 10 percent contribution may be satisfied by cash, equity in the eligible fixed assets serving as collateral for the refi project or equity in any other SBA-approved fixed asset. It is not possible to refinance loans that have an existing federal guarantee. This includes SBA 7(a), SBA 504 and U.S. Department of Agriculture loans.

### **The clock is ticking**

Until conventional small-business lending thaws, it appears that SBA lending

will continue to fill the gap. Property values remain diminished and interest rates are at all-time lows, which means that purchasing or expanding commercial facilities is an attractive option for small-business owners. The long-term fixed rates that the SBA 504 program provides make this opportunity even more practical. For much of this year, 504 interest rates have ranged from 4 percent to 5 percent — and this is fixed for 20 years, typically with only 10 percent down.

With \$7.5 billion set aside and ready to be used just for refinances (and another \$7.5 billion available for acquisitions and new construction), the 504 program may be the shot in the arm that small businesses need. Remember that the refinance provision of the SBA 504 loan expires in September 2012, unless an extension is granted. Smart mortgage professionals should work hard to make use of the allotted funds before next September. ●