

Economic Development

Three Ways the 504 Refi Program Can Help You

By Nick Drewsen

The SBA 504 Program has always helped lenders say “yes” to more opportunities! Historically those opportunities were limited to new money fixed asset transactions. However, with the return of the SBA 504 Refinance Program those opportunities have now been greatly expanded. The natural follow-up question then becomes how best to utilize the new refi program and what circumstances result in a good fit. The following three scenarios seem to be generating the most inquiries and potential: land contracts, variable rate loans and the need to restructure existing indebtedness.

#1 Replacing Land Contracts

SBA has always considered land contracts to be permanent financing and, once in place, there was no way to take them out with the SBA 504 program. Now with the return of the refinance program we have a new opportunity to take a second look at those customers operating under land contracts. In many cases land contracts are put in place to assist buyers that have difficulty qualifying for conventional financing and thus they generally have high loan-to-values and unfavorable interest rates. If you have a customer with a land contract that has been in place for two years on real estate which is at least 51% owner occupied and the current loan-to-value is at or below 90%, think SBA 504 Refi! The 504 refinance programs may be able to greatly reduce the borrower’s monthly payments interest expense and your portion of the end financing will be at a very comfortable loan to value – typically 50%.

#2 Hedging Against Variable Rates

After experiencing eight years of a sub-4% Prime Rate



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it is easy to forget that as recently as 2007, the Prime Rate was as high as 8.25%. Hopefully we don’t get back there anytime soon, but with the recent increases in the Federal Funds Rate it is likely lenders will start getting inquiries from those customers or prospects with variable rate financing on the availability of long term fixed rate loans. One of the biggest benefits to the SBA 504 Program has always been the ability to fix the interest rate for 20 years on a portion of the financing request. 504 Refinance Projects funded in March of 2017 had 20-Year Effective Fixed Rates of 4.869%. We are seeing lots of interest here in helping those customers with variable rate loans by reducing future interest rate risk and putting them in a more stable position to succeed long term.

#3 Restructuring Debt to Improve Cash Flow

In a Seminar Series recently put on by WBD, two recent 504 project case studies were highlighted. Both examples showed the tremendous ability of the SBA 504 Program to help reset the balance sheet and improve cash flow by consolidating existing debt, extending the terms and offering below-market long-term fixed rate financing.

The first case centered on a campground resort that had been operating near break-even for several years. The 504 Refinance Program not only allowed this customer to refinance existing debt of about

\$4,000,000 but it also provided cash out for eligible business expense of \$350,000 and due to the favorable terms offered under the program this customer experienced a reduction in annual debt service of over \$140,000 per year!

The second case helped a manufacturing firm with significant equipment holdings. This customer benefited by consolidating 11 different equipment term notes and capital leases. Furthermore, since their equipment had excess equity based on a fair market value the customer was also able to term out a large portion of their evergreen LOC. Thanks to the SBA 504 Refi Program this customer now has working capital availability that can be used to take advantage of future growth opportunities and

annual cash flow savings of approximately \$400,000!

While only highlighting three scenarios here, there are certainly many other ways to utilize the SBA 504 Refi Program. The key is to remember refinancing is now a possibility under the SBA 504 Program. When it comes time to get creative in finding solutions for your customers remember to reach out to your local WBD Loan Officer for help with creative ideas!

More information on the 504 refinance program, including a link to an eligibility screening checklist can be found here: www.wbd.org/refinancing-now-available-with-504-program.

Drewsen is vice president and loan officer at the Wisconsin Business Development Corp.



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