



Article 215

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Jobs Act Frees Cash for Small-Business Borrowing

By Floyd Morelos, Vice President, Century Bank

One silver lining in the economy's slow recovery is that deflated real-estate values have given many business owners the opportunity to purchase the building they've been leasing or to buy land on which they can construct a new building for their business. The federal government helps by offering loan guarantees through its 504 loan program. Under temporary provisions of the Small Business Jobs Act, the 504 program lets borrowers refinance mortgages on properties they already own.

Created in 1980 to encourage economic development, the 504 program has made it easier for businesses — the biggest job-creators in the country — to expand through the acquisition of assets. The program provides long-term, fixed-rate financing for the purchase of land, buildings, machinery, equipment and certain improvements.

Under the legislation, the Small Business Administration is temporarily lifting the provision that requires expansion-only loans. This is especially good news for businesses with equity in real estate that may be difficult to refinance.

How it works

Under established rules, a 504 loan could be used for any "fixed asset" used for expansion. It could be used to buy land or a building or to construct a new facility or renovate an older one. Other eligible site improvements have included road building, installing utilities, adding a parking lot, landscaping and buying durable machinery and equipment with a 10-year work life.

The program allows the borrower to assume as little as 10 percent of the cost of the project being financed. The federal government underwrites 40 percent and takes a subordinate position. This has allowed the borrower's bank or financial institution to limit its risk to 50 percent, thereby improving the overall loan package.

As of this year, under the expanded temporary provisions, borrowers can finance up to 90 percent of the appraised value of property they own. Borrowers with more than 10 percent equity can thus obtain cash to pay eligible business expenses. Any business with a commercial mortgage two or more years old may refinance its debt, regardless of maturity.

The temporary rules are also more attractive to financial institutions, allowing them to deliver more money to businesses. Rather than asking a bank to underwrite 50 percent of a project, the SBA only requires the bank to assume an amount equal to or greater than the SBA amount. This lets the business use the maximum amount of long-term, low interest, fixed-rate financing available.

Joseph Sierra, who heads the 504 loan program at Century Bank in Santa Fe, feels the program is under utilized. “In my opinion, the majority of the business environment isn’t aware of the program,” he said. “With favorable rates and terms ranging from 10 to 20 years, it’s surprising that more businesses aren’t taking advantage of the program.

The temporary provisions expire Sept. 27, 2012, when 504 loan program rules revert to previous specifications. For more information, contact Joseph Sierra at 505-798-5914.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC) and its partners to assist individuals and businesses with obtaining skills and funding-resources for their business or idea. To learn more, go to www.FinanceNewMexico.org.

