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504 Program Allowing Businesses to Refinance Existing Debt...

(June, 2009) - Effective immediately, small businesses seeking to expand will be able to refinance existing loans used to purchase real estate and other fixed assets as a result of permanent changes to the 504 Loan Program. These changes are a result of the American Recovery and Reinvestment Act of 2009 and are intended to help promote economic recovery. The key eligibility requirements are summarized below:

- * The 504 project must include an expansion component. This means that we can't look at refinancing an existing loan unless the project also includes the acquisition, construction or improvement of land, building or equipment by the small business.
- * The existing debt is collateralized by fixed assets and must also collateralize the 504 Loan.
- * The amount of debt to be refinanced may not exceed 50% of the project cost of the expansion. The amount of the loan(s) to be refinanced would be added to the total project and then we would structure the deal with the normal 50/40/10 split between the bank/Growth Corp/borrower. The equity requirement would be higher for new businesses or special-use properties.
- * The refinancing will provide a substantial benefit to the borrower when prepayment penalties, financing fees, and other financing costs are accounted for. The SBA will require a 10% reduction in the monthly installment in order to qualify.
- * The 504 financing must provide better terms or interest rate than the existing debt.
- * The borrower must be current on all payments due on the existing debt for not less than one year preceding the date of refinancing.

The SBA's official press release states, "The permanent changes will allow small businesses to restructure eligible debt to help improve their cash flow which, in turn, will enhance their viability and support growth and job creation. The 504 loan program can be used to purchase business real estate or fixed assets, such as heavy equipment or machinery, and expand current development projects.

"This is one more piece of the Recovery Act that is going to have a direct impact and put more money in the hands of small business owners just when they need it most," SBA Administrator Karen G. Mills said. "Lower interest rates mean lower payments and less money going out the door each month in debt repayments. That means more cash on hand to keep their doors open, their employees working and to even expand and create more jobs."

Mills pointed out that the 504 program's refinancing changes are the latest in several Recovery Act provisions that have been implemented by the SBA in recent weeks. On March 16, the agency temporarily raised to 90 percent the guarantee level on many of its 7(a) program loans and reduced fees on both 7(a) and 504 loans, and also doubled to \$5 million the surety bond guarantee level for small businesses competing for construction and service contracts."

Should you have any questions, or would like to sit down and discuss the changes, don't hesitate to call me. In addition, please check out the following websites:

www.recovery.gov

www.sba.gov/recovery

www.growthcorp.com

June 504 Effective Rate
5.78%

Headquarters:

2401 W. White Oaks Dr.
Springfield, IL 62704
217-787-7557

Chicago Metro:

1300 W. Belmont
Chicago, IL 60657
773-880-1455

Chicago—Orland Park:

9611 W. 165th St.
Suite 16
Orland Park, IL 60467
847-648-6300

Southern Illinois:

110 N. Taft St.
P.O. Box 151
West Frankfort, IL 62896
618-920-2472

www.growthcorp.com

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