



NOTES OF INTEREST

SPRING 2011

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How to Embrace Maturing Commercial Mortgages...

SBA 504 Commercial Debt Refinance Program

DEBT REFINANCE – WHAT'S THE BIG DEAL?

The refi program strengthens banks and provides payment stability for business owners. Essentially, banks lower their exposure considerably, while borrowers get peace of mind knowing they have a long-term solution with a 20-year fixed rate mortgage. That's huge.

Lenders are now able to refinance existing commercial mortgages with the same 504 loan structure previously only applicable for new projects: a 50% private first mortgage, a 40% SBA backed debenture, and 10% borrower equity.

4 KEYS TO THE REFI PROGRAM

- 1) Maturity: there is no cut-off date – SBA opened the program to all eligible maturing commercial real estate mortgages
- 2) Credit quality: minimum 12 month history of no late (30+) payments
- 3) Advance rate: lesser of 90% of current appraised value (or) 100% of existing loan balance
- 4) Structure: based on current appraised value and existing debt

WHAT'S IN IT FOR BANKS?

- Reduced exposure on commercial real estate...Even if the property value has significantly declined
- Eases regulatory pressures
- Provides long-term fixed rate financing solutions for clients in what may become a "rising rate" environment
- Strengthens the bank's balance sheet
- Frees up lending availability...Reach out to new borrowers and/or better serve existing clients
- An excellent marketing opportunity to pull in new customers

WHAT'S IN IT FOR BORROWERS?

- Provides business owners with a below-market, long-term fixed rate
- Payment stability – borrowers get either a 10- or 20-year fixed rate on up to 40% of appraised value
- Borrowers are allowed to use equity in existing fixed assets as equity in the 504 project
- Preserves capital with a low 10% equity contribution...Even on single/limited use properties
- Improves cash flow and long-term viability of businesses.

877-BEST 504



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We are always available to answer your questions and would be happy to come on-site and discuss the changes with your commercial lending team. Call us today!

SPOTLIGHT ON

Questions You've
Been Asking.

Q: AT THE TIME OF CLOSING, WHAT IS THE AMOUNT THAT GETS PAID DOWN?

A: THE BANK GETS A PAYOFF FOR THE SBA PORTION OF THE FINANCING (TYPICALLY 40%) – NOT THE DEBENTURE AMOUNT.

Q: WHAT KIND OF RATE CAN MY BORROWER EXPECT WITH THE REFI PROGRAM?

A: THE REFI PROGRAM HAS A HIGHER EFFECTIVE INTEREST RATE THAN STANDARD 504 LOANS DUE TO HIGHER SERVICING FEES. THE RATE WILL BE APPROXIMATELY 30 BASIS POINTS OVER THE 504'S EXISTING 20-YEAR RATE. FOR EXAMPLE, MAY'S 20-YEAR EFFECTIVE RATE IS 5.41%, AND THE 20-YEAR REFI RATE IS 5.70%.

Q: HOW MUCH "PRE-QUALIFICATION" CAN YOU PROVIDE ME? MY BORROWER DOESN'T WANT TO PAY FOR AN APPRAISAL IF THE SBA IS GOING TO COME BACK WITH A NO.

A: ELIGIBILITY CAN TYPICALLY BE DETERMINED FROM A REVIEW OF A FEW KEY DOCUMENTS AND FINANCIALS. THEREFORE, AS LONG AS THE PROJECT MEETS THE CRITERIA FOR THE REFI PROGRAM, IT IS UNLIKELY THAT A BORROWER WILL PAY FOR AN APPRAISAL ON A PROPERTY THAT SUBSEQUENTLY RECEIVES A REJECTION. KEEP IN MIND, GROWTH CORP CAN WORK WITH YOU IN EVALUATING POTENTIAL 504 REFINANCE OPPORTUNITIES.

THE 504 IN ACTION

ENTREPRENEUR OF THE YEAR

ELAINE KRIEGER,

PRESIDENT

KRIEGER KIDDIE CORPORATION



*Elaine Krieger,
President and CFO
Krieger Kiddie Corporation*

Not only does Elaine Krieger understand the struggle people endure during a tough economy, she lived through it and rose above it. Not only does she own a successful business, but she is also a dedicated wife, mother, and community activist. And, finally, not only is she an award winning Entrepreneur, but she exemplifies why successful businesses utilize financial assistance through the 504 Loan Program time and time again.

Elaine Krieger is President and CFO of Krieger Kiddie Corporation, a chain of family clothing stores in the Chicagoland area. Beating incredible odds in her journey to become a successful business owner, Krieger's story began when she found herself with two young children

to support and a layoff notice from her employer. How she built her business from there is truly remarkable. Krieger Kiddie Corporation was formed in 1999 when Krieger opened her first retail franchise of Once Upon a Child. She now owns and operates eleven retail franchises encompassing Once Upon a Child, Plato's Closet, and Clothes Mentor.

Krieger has had great success with the 504 Loan Program because it allows her to preserve her working capital during the process of expansion. She can then use the capital to hire new store employees and purchase inventory for the business.

The U.S. Small Business Administration recently named Elaine Krieger the National Entrepreneur of the Year, in addition to her Illinois Entrepreneur of the Year Award. She will travel to Washington DC in May to be honored during the National Small Business Week ceremonies. She will also be honored in June at a ceremony in Chicago hosted by SBA and SCORE.

GROWTH CORP'S ANNUAL LENDER UPDATE

Congratulations go out to all of Growth Corp's 2010 award winning lenders...we value our partnership with you!

MOST ACTIVE BANKS:

- J.P. MORGAN CHASE BANK
- FIRST MIDWEST BANK
- OLD SECOND BANK



REGIONAL AWARDS – MOST ACTIVE LENDERS:

- PETE ARGIANAS & MEGHAN KRETSCH, GOLD COAST BANK
- JOHN DORSEY & TIM WHITTEN, FIRST NATIONAL BANK OF STAUNTON
- ROB HALLBERG, MB FINANCIAL
- MARK YEMM, MORTON COMMUNITY BANK

JUST A REMINDER... Refi loans have to be funded within six months of approval. Please plan ahead in collecting title work, environmental documents, and collateral assignments as these can be time consuming.

INDUSTRY NEWS

Structuring the Bank's Loan in a 504... One Loan or Two?

Assuming the borrower has already applied for a 504 loan, the main factor to consider is whether the project is:

- A. an acquisition with very little build-out requirements; or,
- B. a construction project that will take 8-15 months (or more) to complete.

Now, here are the SBA's preferences and why:

- ⇒ **If the project is a straight acquisition (very few build-out requirements),** then the SBA's preference is to do two loans. The reason being is because with two mortgages, the title work will clearly show the loan amount that is ahead of the SBA 504 portion and SBA can then easily determine that the amount they are sending to the bank at closing is enough to pay off the interim loan.

- ⇒ **If the project involves renovation/construction requiring at least 8-15 months to complete,** then the SBA's preference is to do one loan. The reason being is that there are going to be different provisions. So, the amount of a construction loan should be the sum of the term loan and the interim loan. Then, at closing, the bank should do one term loan for their portion and use the proceeds to pay down the construction loan. SBA can then look at the large construction loan, clearly see what the bank's term loan has paid down, and verify that the difference remaining matches the amount they are sending in 504 funds.

504 REFI PROGRAM EXPANDED

The SBA expanded the 504 Refi Program to also include loans with maturity dates **after** December 31, 2012. The original policy required eligible loans to have a maturity date **prior** to December 31, 2012.

Expanding the Refi Program to those businesses with maturity dates after December 31, 2012, lifts the date limitation and allows more businesses a refinancing solution for mortgages that may have been based on inflated real estate values.





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PROGRESS \diamond ADVANCE \diamond EVOLVE

AS THE COMMERCIAL LENDING LANDSCAPE CHANGES, THE 504 LOAN PROGRAM CAN HELP YOU ADAPT AND STAY COMPETITIVE IN TODAY'S MARKET.

THE 504 LOAN PROGRAM:

- TAKES INTEREST RATE RISK OUT OF THE EQUATION FOR THE SBA'S TOTAL PERCENTAGE OF THE FINANCING
- HELPS BANKS MANAGE THEIR COMMERCIAL REAL ESTATE CONCENTRATION ISSUES – ALLOWING FOR ADDITIONAL LENDING WITHOUT 100% EXPOSURE ON THE BOOKS
- A 50% LOAN-TO-VALUE ON TODAY'S DEPRESSED VALUES IS SAFER THAN EVER BEFORE
- THE REFI PROGRAM ALLOWS YOU TO HELP GOOD BORROWERS WITH BAD LOAN-TO-VALUE RATIOS

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